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Chapter 3

Philosophical Ethics and Business

Rules cannot substitute for character.

Alan Greenspan

Hell begins the day that God grants you the vision to see all that you could have
done, should have done, and would have done, but did not do.

Goethe

Opening Decision Point

Social Benefits and Personal Duties: Should Managers Value Supplier Loyalty?

The purchasing departments of major retail firms are responsible for deciding which products their stores will stock and which suppliers will provide these products. In many cases, retail stores develop long-term relationships with their suppliers that can work in the best interests for both companies.

In the global economy, it has become increasingly attractive for major retail stores to turn to foreign suppliers who can sell products comparable to those produced domestically for much lower costs. This practice allows the retailer to pass on savings to the consumer and remain competitive in the marketplace. This choice has also resulted in a significant loss of business for many domestic suppliers, and, in some cases, suppliers have been forced out of business. Imagine the following conversation between a supplier and the purchasing manager for a large retail store.

Supplier: You can't cancel your order with us. If you do, I'll have to lay off many of my employees and I don't even know if the company will survive. We already have done as much as we can to cut costs; our employees have not had a pay increase in years and some wages and benefits have been reduced. Yet, the costs of our own materials, especially our energy costs, have risen significantly, and our taxes remain high. We have always been reliable, cooperative, and accommodating to your needs. Don't you feel any *loyalty* to us, to our employees, to fellow American citizens?

Purchasing manager: I am not happy doing this, but I do have a responsibility to my own company, to its stockholders, and to our customers. I have a responsibility to purchase our products at the lowest costs. We have always been loyal to you, too, but loyalty is not the issue. Our relationship is a business and contractual relationship only. Besides, we both know what economists and politicians say about foreign trade. Our entire society will benefit if we seek the lowest cost products: Consumers benefit from lower costs, our economy grows when consumer purchasing power increases as a result, and this growing economy will provide jobs to American workers. Further, economic growth in foreign countries will increase their imports from the United States and, once again, lead to more jobs domestically.

Supplier: That may sound good in theory, but I know my employees will not think it is very fair for them to lose real jobs now for possible jobs for other people in the future. Besides, it is not as if your own company and its owners have not already made billions of dollars. Maybe it's time they reduced their profits to keep loyal suppliers in business.

- How would you describe the decision faced by the purchasing manager? Is it an ethical issue at all? Why or why not?
- Are there any factual questions that you would want to resolve before making such a decision?

(continued)

(concluded)

- What alternatives are available for the purchasing manager?
- What role, if any, should the principle of loyalty play in business decisions?
- Do you agree that employees have a duty to seek the greatest profits for their companies? What values are promoted by such a duty?
- What duties does the purchasing manager have? To whom does the purchasing manager owe responsibility; who are the stakeholders involved?
- Assume that it is true that foreign trade will produce greater long-term overall economic consequences. Is it fair for some individuals to lose their jobs so that other individuals will benefit in the future?
- Does a business have responsibilities to suppliers that are not specified in their contracts? What other alternatives are available to the purchasing manager and how do these alternatives impact each stakeholder or group of stakeholders?
- Is it fair that loyal suppliers be treated this way?
- Is there anywhere else you can look for assistance or guidance?



Chapter Objectives

After reading this chapter, you will be able to:

1. Explain the ethical tradition of utilitarianism.
2. Describe how utilitarian thinking underlies much economic and business decision making.
3. Explain how free markets might serve the utilitarian goal of maximizing the overall good.
4. Explain strengths and weaknesses of utilitarian decision making.
5. Explain principle-based, or deontological, ethical traditions.
6. Explain the concept of moral rights.
7. Distinguish moral rights from legal rights.
8. Explain the Rawlsian theory of justice as fairness.
9. Describe and explain virtue-based theories of ethical character.

Introduction: Ethical Theories and Traditions

Chapters 1 and 2 introduced ethics as a form of practical reasoning in support of decision making about how we should live our lives. Ethics involves what is perhaps the most significant question any human being can ask: How *should* we live our lives? But, of course, this question is not new; every major philosophical, cultural, political, and religious tradition in human history has grappled with

it. In light of this, it would be imprudent to ignore these traditions as we begin to examine ethical issues in business. In particular, several traditions in Western ethics have had a significant influence on the development of contemporary business and economics.

Nevertheless, discussions of philosophical ethics can appear intimidating or too abstract to many students. Discussion of ethical “theories” often seems to be too *theoretical* to be of much relevance to business. Throughout this chapter, we hope to suggest a more accessible understanding of ethical theories, one that will shed some light on the practical and pragmatic application of these theories to actual problems businesspeople face.

An ethical theory is nothing more than an attempt to provide a systematic answer to the fundamental ethical question: How should human beings live their lives? Not only do ethical theories attempt to answer the question of how we should live, but they also provide *reasons* to support their answer. As the previous chapter suggested, accountable decision making requires giving reasons to justify our actions. Ethical theories seek to provide a rational justification for *why* we should act and decide in a particular way. Anyone can offer prescriptions for what you should do and how you should act, but *philosophical* ethics answers the “Why?” question as well by connecting its prescriptions with an underlying account of a good and meaningful human life.

Many people and cultures across the world base their ethical views on certain religious or theological foundations. The biggest practical problem with this approach, of course, is that people differ widely in their religious beliefs. If ethics is based only on religious principles, and if people disagree about those religious starting points, then ethics would never escape the predicament of relativism.

Unlike theological ethics, which explains human well-being in religious terms, philosophical ethics provides justifications that must be applicable to all people, regardless of their religious starting points. Philosophical ethics seeks foundations that all reasonable people can accept, regardless of their religious convictions. Thus, for example, “you should contribute to disaster relief because it will reduce human suffering” is a philosophical justification for an ethical judgment, whereas “you should contribute to disaster relief because God commands it,” or “because it will bring you heavenly rewards” is not.

This chapter will introduce several ethical frameworks that have proven influential in the development of business ethics: *utilitarianism*, an ethical tradition that directs us to decide based on overall consequences of our act; *deontological* ethical traditions, which direct us to act on the basis of moral principles such as respecting human *rights*; a theory of social justice that takes fairness as the primary social principle; and *virtue ethics*, which 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.

Decision Point

Who Is to Say What Is Right or Wrong?

Are you an ethical relativist? Ethical relativists hold that ethical values are relative to particular people, cultures, or times. The relativist denies that there can be any rationally justified or objective ethical judgments. When ethical disagreements occur 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.

Do you believe that there is no way to decide what is right or wrong? 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 all people are entitled to their own personal opinions, he is entitled to fail you since, in his personal opinion, you do not deserve to succeed.

- Would you accept this explanation and be content with your failing grade? If not, how would you defend your own, opposing view?
- Are there any relevant facts you would rely on to support your claim?
- What values are involved in this dispute?
- What alternatives are available to you?
- Besides you and your teacher, should any other people, any other stakeholders, be involved in this situation?
- What reasons would you offer to the dean in an appeal to have the grade changed?
- What consequences would this professor’s practice have on education?
- If reasoning and logical persuasion do not work, how else could this dispute be resolved?

Utilitarianism: Making Decisions Based on Ethical Consequences



OBJECTIVE

The first ethical tradition that we will discuss, utilitarianism, has its roots in 18th- and 19th-century social and political philosophy. Utilitarianism was part of the same social movement that gave rise to modern democratic market capitalism. Much of neoclassical economics, and the model of business and management embedded in it, has its roots in utilitarian thinking. (See the Reality Check that follows.)

Utilitarianism begins with the conviction that we should decide what to do by considering the *consequences* of our actions. Utilitarianism tells us that we should act in ways that produce better overall consequences than the alternatives we are considering. “Better” consequences are those that promote human well-being: the happiness, health, dignity, integrity, freedom, and respect of all the people affected.

Reality Check *Adam Smith, Utilitarianism and the Invisible Hand of Free Markets*

The roots of contemporary market capitalism are commonly traced to Adam Smith's book, *The Wealth of Nations* (1776). Smith's ethical goals were decidedly utilitarian: Economic institutions should be arranged in ways that would promote the overall wealth of a nation, rather than the personal wealth of the monarch or the aristocracy. Smith argued that if society adopted certain economic principles—the principles of what we have come to understand as market capitalism—then the pursuit of individual self-interest alone would, as if “led by an invisible hand,” result in greater overall prosperity. Smith was a utilitarian who concluded that a free market economy was the most efficient means to attain the utilitarian goal.

In what is perhaps the most famous passage from Smith's *Wealth of Nations*, he writes:

As every individual, therefore, endeavours as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual value of society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible

hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it.

Contrary to what is often thought, Smith did not believe that humans were selfish nor did he believe that self-interest alone was sufficient to secure the ethical ends of maximum overall happiness. Sympathy, empathy, fellow-feeling were just as basic human motivations as self-interest. Human nature is such that we naturally imagine ourselves in the place of others, we agonize with their suffering and feel joy at their happiness. These motivations are as real and as effective as self-interest. Smith's economic conclusion was simply that we do not need sympathy and altruism to achieve beneficial overall consequences:

It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.

If a basic human value is individual happiness, then an action that promotes more of that than an alternative does is more reasonable and more justified from an ethical point of view. 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.

The emphasis on producing the greatest good for the greatest number makes utilitarianism a social philosophy that provides strong support for democratic institutions and policies and opposes those policies that aim to benefit only a small social, economic, or political minority. Therefore, it could be said that the

economy and economic institutions are utilitarian in that they exist to provide the highest standard of living for the greatest number of people, not simply to create wealth for a privileged few.

For a business-related example, consider the case of child labor, discussed in further detail in Chapter 6. In judging the ethics of child labor, utilitarian thinking would advise us to consider all the likely consequences of employing young children in factories. Obviously, the practice has many problematic consequences: Children suffer physical and psychological harms, they are denied opportunities for education, their low pay is not enough to escape a life of poverty, and so forth. But these consequences must be compared to the consequences of alternative decisions. What are the consequences if children in poor regions are denied factory jobs? These children would still be denied opportunities for education; they would live in worse poverty; and they would have less money for food and family support. In many cases, the only alternatives for obtaining any income available to young children who are prohibited from joining the workforce might include crime, drugs, and prostitution. Further, we should consider not only the consequences to the children themselves, but to the entire society. Child labor can have beneficial results for bringing foreign investment and money into a poor country. In the opinion of some observers, allowing children to work for pennies a day under sweatshop conditions produces better overall consequences than the available alternatives. Thus, one might argue on utilitarian grounds that such labor practices are ethically permissible because they produce better overall consequences than the alternatives.

This example highlights several important aspects of utilitarian reasoning. Because utilitarians decide on the basis of consequences, and because the consequences of our actions will depend on the specific facts of each situation, utilitarians tend to be very pragmatic thinkers (but not egoistic; see the Reality Check that follows). No act is ever absolutely right or wrong in all cases in every situation; right and wrong will always depend on the consequences. For example, lying is neither right nor wrong in itself, according to utilitarians. In some situations, lying may produce greater overall good than telling the truth. In such a situation, it would be ethically justified to tell a lie.

Utilitarian reasoning also usually supplies some support for each competing available alternative. For example, the utilitarian might argue for banning child labor as harmful to the overall good or allowing 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? The utilitarian tradition has a strong inclination to rely on the social sciences for help in making such predictions. After all, social science studies the causes and consequences of individual and social actions. Who is better situated than a social scientist to help us predict the social consequences of our decisions? Consider, as an example, how the fields of economics, anthropology, political science, sociology, public policy, psychology, and medical and health sciences could help determine the likely consequences of child labor in a particular culture. We will return to examine this example further in Chapter 6.

Reality Check *Is Utilitarianism Egoistic?*

While the imperative to maximize pleasure or happiness sounds selfish and egoistic, utilitarianism differs from *egoism* in important ways. Egoism is also a **consequentialist theory**, but it focuses on the happiness of the individual. In other words, instead of determining the “greatest good for the greatest number,” egoism seeks “the greatest good for me”!

Utilitarianism judges actions by their consequences for the general and overall good. Consistent with the utilitarian commitment to democratic

equality, however, the general good must take into consideration the well-being of each and every individual affected by the action. In this way utilitarianism serves the ultimate goal of ethics: the impartial promotion of human well-being. It is impartial because it considers the consequences for everyone, not just for the individual. People who act in ways to maximize only their own happiness, or the happiness of their company, are not utilitarians, they are egoists.

Utilitarianism and Business: Profit Maximization versus Public Policy Approaches



OBJECTIVE

Utilitarianism answers the fundamental questions of ethics—what should we do?—by reference to a rule: Maximize the overall happiness. But another question remains to be answered: *How* do we achieve this goal? What is the best means for attaining the utilitarian goal of maximizing the overall good? Two answers prove especially relevant in business and business ethics.

One movement within utilitarian thinking invokes the tradition of Adam Smith, claiming that free and competitive markets are the best means for attaining utilitarian goals. This version would promote policies that deregulate private industry, protect property rights, allow for free exchanges, and encourage competition. In such situations, decisions of rationally self-interested individuals would result, as if led by “an invisible hand” in Adam Smith’s terms, in the maximum satisfaction of individual happiness.



OBJECTIVE

Given this utilitarian goal, neoclassical free market economics advises us that the most efficient economy is structured according to the principles of free market capitalism. This requires that business managers, in turn, should seek to maximize profits. This idea is central to one common perspective on corporate social responsibility. By pursuing profits, business insures that scarce resources go to those who most value them and thereby insures that resources will provide optimal overall satisfaction. Thus, these economists see competitive markets as the most efficient means to the utilitarian end of maximizing happiness. For an example of this applied in practice, see the Reality Check that follows.

A second influential version of utilitarian policy turns to policy experts who can predict the outcome of various policies and carry out policies that will attain utilitarian ends. These experts, usually trained in the social sciences such as economics, political science, and public policy, are familiar with the specifics of how society works, and they therefore are in a position to determine which policy will maximize the overall good.

This approach to public policy underlies one theory of the entire administrative and bureaucratic side of government and organizations. From this view, the

Reality Check *Utilitarian Experts in Practice*

Consider how the Federal Reserve Board sets interest rates. There is an established goal, a public policy “good,” that the Federal Reserve takes to be the greatest good for the country. (This goal is something like the highest sustainable rate of economic growth compatible with minimal inflation.) The Fed examines the relevant economic data and makes a judgment about the present and future state of the economy. If economic activity seems to be slowing down, the Fed might decide to lower interest rates

as a means of stimulating economic growth. If the economy seems to be growing too fast and the inflation rate is increasing, the Fed might choose to raise interest rates. Lowering or raising interest rates in itself is neither good nor bad; the rightness of the act depends on the consequences. The role of public servants is to use their expertise to judge the likely consequences and make the decision that is most likely to produce the best result.

legislative body (from Congress to local city councils) establishes the public goals that we assume will maximize overall happiness. The administrative side (presidents, governors, mayors) executes (administers) policies to fulfill these goals. The people working within the administration know how the social and political system works and use this knowledge to carry out the mandate of the legislature. The government is filled with such people, typically trained in such fields as economics, law, social science, public policy, and political science. This utilitarian approach, for example, would be sympathetic with government regulation of business on the grounds that such regulation will insure that business activities do contribute to the overall good.

The dispute between these two versions of utilitarian policy, what we might call the “administrative” and the “market” versions of utilitarianism, characterizes many disputes in business ethics. One clear example concerns regulation of unsafe or risky products. (Similar disputes involve worker health and safety, environmental protection, regulation of advertising, and almost every other example of government regulation of business.) One side argues that questions of safety and risk should be determined by experts who then establish standards that business is required to meet. Government regulators (for example, the Consumer Products Safety Commission) are then charged with enforcing safety standards in the marketplace.

The other side argues that the best judges of acceptable risk and safety are consumers themselves. A free and competitive consumer market will insure that people will get the level of safety that they want. Individuals calculate for themselves what risks they wish to take and what trade-offs they are willing to make in order to attain safety. Consumers willing to take risks likely will pay less for their products than consumers who demand safer and less risky products. The very basic economic concept of efficiency can be understood as a placeholder for the utilitarian goal of maximum overall happiness. Thus, market-based solutions will prove best at optimally satisfying these various and competing interests and will thereby serve the overall good. The following Decision Point tests the efficacy of this approach with regard to consumer safety.

Decision Point

Should Consumer Product Safety Be Left to Individual Bargaining?

The free market version of utilitarian decision making would conclude that standards for consumer product safety are best left to the workings of the market. From this perspective, individual consumers should be left alone to bargain for the level of safety in products that they find acceptable and to make trade-offs with other benefits such as price or convenience. According to free market theory, the result of this policy would be an optimal distribution of risks and benefits. This recommendation underlies the traditional policy of *caveat emptor*, or “let the buyer beware.” Do you agree that such decisions are best left to the market?

- What facts are relevant in answering this question? Does it matter what type of consumer product is involved? Does it matter who the consumer is? Why?
- What values support a policy of *caveat emptor*? What values count against it?
- Other than consumers and producers, what other stakeholders might be affected by product safety issues?
- What alternative might there be to a policy of *caveat emptor* and what impact would your alternatives have on each stakeholder?



OBJECTIVE

Problems of Utilitarian Ethics

Because utilitarian thinking is so common in business settings, it is important that we are aware of some of its problems. For instance, if utilitarianism advises that we make decisions by comparing the consequences of alternative actions, then we must have a method for making such comparisons. In practice, however, some comparisons and measurements are very difficult. How, after all, can we count, measure, compare, and quantify happiness? One problem that follows is that, because of these difficulties, there will be a tendency to ignore the consequences, especially the harmful consequences, to anyone other than those closest to us.

This problem is intensified when we recognize that our actions may impact the happiness not only of ourselves and those people surrounding us, but unknown and untold people in distant places and in the distant future. The action of the purchasing agent described in our opening Decision Point will affect not only her own business and the employees of her supplier, but workers and their families living in distant countries. Some utilitarians argue that the happiness of future generations ought to be considered; others include animals and all living beings capable of feeling pleasure and pain. The more expansive the list we should consider, the less practical utilitarian thinking becomes.

A second challenge goes directly to the core of utilitarianism. The essence of utilitarianism is its reliance on consequences. Ethical and unethical acts are determined by their consequences. In short, the end justifies the means. But this seems to deny one of the earliest ethical principles that many of us have learned: The ends do not justify the means.

This challenge can be explained in terms of ethical principles. When we say that the ends do not justify the means, what we are saying is that there are certain

decisions we should make or certain rules we should follow no matter what the consequences. To put it another way, we have certain **duties** or responsibilities that we ought to obey, even when doing so does not produce a net increase in overall happiness. Examples of such duties are those required by such principles as justice, loyalty, and respect, as well as the responsibilities that flow from our social or institutional roles as parent, spouse, friend, citizen, employee, or professional.

Several examples can be used to explain why this is a serious criticism of utilitarian reasoning. Since utilitarianism focuses on the overall consequences, utilitarianism seems willing to sacrifice the good of individuals for the greater overall good. So, for example, it might turn out that the overall happiness would be increased if a small minority of a population were held as slave labor. Utilitarians would object to slavery or to child labor, not as a matter of principle, but only if and to the degree that it detracts from the overall good. If it turns out that slavery and child labor increase the net overall happiness, utilitarianism would have to support these practices. In the judgment of many people, such a decision would violate fundamental ethical principles of justice, equality, and respect. Consider the issue of torture posed in the following Decision Point.

A similar counterexample that can be raised against utilitarianism looks to specific relationships and commitments that we all make. For example, as parents we love our children and have certain duties to them. Utilitarians would seem to be committed to parental love and duty only to the degree that such love and duty contribute to the overall good. Parents should love their children because this contributes to the overall good of society. (And if it doesn't? What of the evildoer's parents—should they stop loving their child? The torturer's mother?) But surely this misrepresents (and insults) the nature of parental love. We do not love our children because of the consequences that this might have for society. Other ethicists would argue that we make certain commitments, we have certain duties, that should not be violated even if doing so would increase the net overall happiness. Violating such commitments and duties would require individuals to sacrifice their own integrity for the common good.

Such commitments and duties play a large role in business life. Contracts and promises are exactly the commitments that one ought to honor even if the consequences turn out unfavorable. The duties that one takes on as a professional function in a similar way. Arthur Andersen's auditors should not have violated their professional duties simply to produce greater overall beneficial consequences. Teachers should not violate their professional duties by failing students they do not like. Aaron Feuerstein might claim that despite bad overall consequences, he had to remain loyal to his employees as a matter of principle. We will consider similar professional commitments and duties when later chapters examine the role of professional responsibilities within business institutions.

Nevertheless, utilitarian ethics does contribute to responsible decision making in several important ways. First, and most obviously, we are reminded of the significance of consequences. Responsible decision making requires that we consider the consequences of our acts. But, as an ethical theory, utilitarianism also reminds us that we must consider the consequences to the well-being of all people affected by our decisions. Clearly, part of the fault of the Enron executives and

Decision Point

Do the Ends Justify the Means?

A major ethical and political controversy arose in recent years over the treatment of hundreds of prisoners captured during the fighting in Afghanistan and Iraq. The government argued that these were dangerous individuals who posed a significant threat to the United States and that this threat justified the treatment they received. Government attorneys even argued that because these individuals were not members of the military of a recognized country, they were not protected by international law and prohibitions against torture. The government argued that it was justified in using severe treatment that bordered on torture to extract information from these prisoners if this information could prevent future attacks on the United States.

Critics argued that some actions, torture among them, are so unethical that they should never be used, even if the result is lost opportunity to prevent attacks. Many critics argued that all people, even terrorists, deserve fundamental rights of a trial, legal representation, and due process.

Do the *ends* of preventing attacks on the United States ever, under any circumstances, justify the *means* of torture?

Arthur Andersen auditors is that they considered only their own short-term and narrow interests when making decisions and failed to consider the consequences to other stakeholders.

But the shortcomings of utilitarian reasoning must also be kept in mind. It is difficult to know everyone who will be affected by our decisions and how they are impacted. Utilitarian reasoning demands rigorous work to calculate all the beneficial and harmful consequences of our actions. Perhaps more important, utilitarian reasoning does not exhaust the range of ethical concerns. Consequences are only a part of the ethical landscape. Responsible ethical decision making also involves matters of duties, principles, and personal integrity. We turn to such factors in the following sections.

Deontology: Making Decisions Based on Ethical Principles



OBJECTIVE

Making decisions based upon the consequences certainly should be a part of responsible ethical decision making. But this approach must be supplemented with the recognition that some decisions should be matters of principle, not consequences. In other words, the ends do not always justify the means. But how do we know what principles we should follow and how do we decide when a principle should trump beneficial consequences? Principle-based, or “deontological,” ethical theories, work out the details of such questions.

The language of “deontology” and “deontological ethics” is very abstract and is likely to strike many students as academic gobbledygook. But the ideas behind

this approach are based in common sense. Ethical principles can simply be thought of as types of rules, and this approach to ethics tells us that there are some rules we ought to follow, even if doing so prevents good consequences from happening or even if it results in some bad consequences. Rules or principles (e.g., “obey the law,” “keep your promises”) create duties that bind us to act or decide in certain ways. For example, many would argue that there is an ethical rule prohibiting child labor, even if this practice would have beneficial economic consequences for society.

Sources of Rules

The law is one example of a type of rule that we ought to follow, even when it does not promote happiness. We have a duty to pay our taxes, even if the money might be more efficiently spent on our children’s college education. I ought to stop at a red light, even if no cars are coming and I could get to my destination that much sooner. I ought not to steal my neighbor’s property, even if he will never miss it and I will gain many benefits from it. Decision making within a business context will involve many situations in which one ought to obey legal rules even when the consequences, economic and otherwise, seem to be undesirable.

Other rules are derived from various institutions in which we participate or from various social roles that we fill. I ought to read each student’s research paper carefully and diligently, even if they will never know the difference and their final grade will not be affected. In my role as teacher and university faculty member, I have taken on certain responsibilities that accompany those roles that cannot be abandoned whenever it is convenient for me to do so. As the referee in a sporting event, I have the duty to enforce the rules fairly, even when it would be easier not to do so. Similar rule-based duties follow from our roles as friends (do not gossip about your friends), family members (do your chores at home), students (do not plagiarize), church member (contribute to the church’s upkeep), citizens (vote), and good neighbors (do not operate your lawn mower before 8:00 A.M.).

There will be very many occasions in which such role-based duties arise in business. As an employee, one takes on a certain role that creates duties. Every business will have a set of rules that employees are expected to follow. Sometimes these rules are explicitly stated in a code of conduct, other times in employee handbooks, still others simply by managers. Likewise, as a business manager, one ought to follow many rules in respect to stockholders, employees, suppliers, and other stakeholders.

Perhaps the most dramatic example of role-based duties concerns the work of professionals within business. Lawyers, accountants, auditors, financial analysts, and bankers have important roles to play within political and economic institutions. Many of these roles, often described as “gatekeeper functions,” insure the integrity and proper functioning of the economic, legal, or financial system. Chapter 2

Reality Check *Ethical Principles at Compaq*

Ethical principles are often integrated within corporate codes of conduct. For example, Compaq Corporation's Code of Conduct mentions six fundamental duties:

Compaq Computer Corporation is committed to promoting integrity and maintaining the highest standard of ethical conduct in all of its activities. Our business success is dependent on trusting relationships, which are built on this foundation of integrity. Our reputation is founded on the personal integrity of the company's personnel and our dedication to:

Honesty in communicating within the company and with our suppliers and customers, while at the same time protecting the company's confidential information and trade secrets

Quality in our products and services, by striving to provide defect-free products and services to our customers

Responsibility for our words and actions, confirms our commitment to do what we say

Compassion in our relationships with our employees and the communities affected by our business

Fairness to our fellow employees, shareholders, customers and suppliers through adherence to all applicable laws, regulations and policies, and a high standard of behavior

Respect for our fellow employees, shareholders, customers and suppliers while showing willingness to solicit their opinions and value their feedback

introduced the idea of professional responsibilities within the workplace, and this theme will be developed further in Chapter 8.

The Enron and Arthur Andersen case provides a helpful example for understanding professional duties. While examining Enron's financial reports, the auditors at Arthur Andersen knew that diligent application of strict auditing standards required one decision, but that the consequences of this diligent application would be harmful to Arthur Andersen's business interests. A fair analysis of this aspect of the Enron–Arthur Andersen scandal would point out that Andersen's auditors failed in their ethical duties precisely because they did not follow the rules governing their professional responsibilities and allowed beneficial consequences to override their professional principles. (See the Reality Check that follows.)

So far we have mentioned legal rules, organizational rules, role-based rules, and professional rules. We can think of these rules as part of a social agreement, or *social contract*, which functions to organize and ease relations between individuals. No group could function if members were free at all times to decide for themselves what to do and how to act. By definition, any cooperative activity requires cooperation; that is, it requires rules that each member follows.

Reality Check *Ethical Rules as a Check on Misguided Consequences*

The Enron and Arthur Andersen case also demonstrates one of the major vulnerabilities of the consequentialist approach. Utilitarians would rightfully point out that Andersen's auditors did not make decisions according to strict utilitarian ethical principles. The auditors calculated the consequences, but only those to their own firm and their own well-being. Had they truly calculated the *overall* consequences of their decisions, as utilitarianism would require, Andersen's auditors may very well have made the right ethical decision. Instead, they thought only about the \$100 million of business gen-

erated by Enron and decided to allow this influence to override their principles. But this shows the difficulty in calculating consequences. Because it is so difficult to know all the consequences of our actions, it will always be tempting to consider only the consequences to ourselves and the stakeholders in our close professional or personal circles. To avoid the slide from a consideration of overall consequences to a consideration of purely individualistic, egoistic (and nonethical) consequences, deontological ethics advises us instead to *follow the rules*, regardless of consequences.

Moral Rights and Duties



OBJECTIVE

Are there *any* rules we should follow, decisions we should make, no matter what the consequences? The foremost advocate of this tradition in ethics, the 18th-century German philosopher Immanuel Kant, argued that there is essentially one such fundamental ethical principle: respect the dignity of each individual human being.

Kant claimed that this duty to respect human dignity could be expressed in several ways. One version directs us to act according to those rules that could be universally agreed to by all people. (This is the first form of the famous “Kantian categorical imperative.”) Another, less abstract version requires us to treat all persons as ends in themselves and never only as means to our own ends. In other words, our fundamental duty is to treat people as subjects capable of living their own lives and not as mere objects that exist for our purposes. To use the familiar subject/object categories from grammar, humans are subjects because they make decisions and perform actions rather than being objects that are acted upon. Humans have their own ends and purposes and therefore should not be treated simply as a means to the ends of others.

Since every person has this same fundamental duty towards others, each of us can be said to have fundamental moral rights: the right to be treated with respect, to expect that others will treat us as an end and never as a means only, the right to be treated as an autonomous person. Perhaps this offers a new perspective on some of the issues we have already addressed. Consider the following Decision Point.

This perspective on ethical duties is particularly relevant to employment issues. Examine the language of *human resource management*, which suggests that humans are “resources” to be managed (akin to natural resources that are managed?). To return to an earlier example, the Kantian would object to child labor

Decision Point

Do the Ends Justify the Means?

Let us reconsider the Decision Point on utilitarianism from earlier in the chapter. We explored the question of whether the *ends* of preventing attacks on the United States ever justified the *means* of torture.

Recall that critics argued that all people, even terrorists, deserve fundamental rights of a trial, legal representation, and due process. If we now approach the question from a Kantian perspective, does this offer us any greater insights or ability to articulate support for the arguments of these critics?

because such practices violate our duty to treat children with respect. We violate the rights of children when we treat them as mere means to the ends of production and economic growth. We are treating them merely as means because, as children, they have not rationally and freely chosen their own ends. We are simply using them as tools or objects.

In this way, the concept of a moral right is central to the deontological tradition. The inherent dignity of each individual means that we cannot do just anything we choose to another person. Moral rights protect individuals from being treated in ways that would violate their dignity and that would treat them as mere objects or means. Moral rights imply that some acts and some decisions are “off-limits.” Accordingly, our fundamental moral duty (the “categorical imperative”) is to respect the fundamental moral rights of others. Our rights establish limits on the decisions and authority of others.

So what rights do we have? We can at least sketch a general account of rights by returning to the original idea of respect and the elements of *autonomy* and dignity on which it is based. What human characteristic justifies the assumption that humans possess a special dignity? Why would it be wrong to treat humans as mere means or objects, rather than as ends or subjects?

The most common answer offered through the Western ethical tradition is that the human capacity to make free and rational choices is the distinctive human characteristic. Humans do not act only out of instinct and conditioning; they make free choices about how they live their lives, about their own ends. In this sense, humans are said to have *autonomy*. Humans are subjects in the sense that they originate action, they choose, they act for their own ends. To treat them as a means or as an object is to deny them this distinctive and essential human characteristic; it would be to deny them their very humanity.

From this we can see how 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. But since all humans possess this fundamental characteristic, equal treatment and equal consideration are also fundamental rights.

In summary, we can say that rights offer protection of certain central human interests, prohibiting the sacrifice of these interests merely to provide a net increase in the overall happiness. But interests, as opposed to desires, are connected to human well-being in an objective manner. Human nature, characterized as the capacity for free and autonomous choice, provides the grounds for

Reality Check *Are Fundamental Human Rights Universally Accepted?*

In 1948, the United Nations adopted the Universal Declaration of Human Rights. Since that time, this declaration has been translated into more than 300 languages and dialects. The declaration contains 30 articles outlining basic human rights. In part, the declaration includes the following:

PREAMBLE

Recognition of the inherent dignity and of the equal and inalienable rights of all members of the human family is the foundation of freedom, justice and peace in the world.

Article 1.

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.

Article 2.

Everyone is entitled to all the rights and freedoms set forth in this Declaration, without distinction of any kind, such as race, colour, sex, language, religion, political or other opinion, national or social origin, property, birth or other status.

Article 3.

Everyone has the right to life, liberty and security of person.

Article 4.

No one shall be held in slavery or servitude; slavery and the slave trade shall be prohibited in all their forms.

Article 5.

No one shall be subjected to torture or to cruel, inhuman or degrading treatment or punishment.

Article 9.

No one shall be subjected to arbitrary arrest, detention or exile.

Article 10.

Everyone is entitled in full equality to a fair and public hearing by an independent and impartial tribunal, in

the determination of his rights and obligations and of any criminal charge against him.

Article 18.

Everyone has the right to freedom of thought, conscience and religion; this right includes freedom to change his religion or belief, and freedom, either alone or in community with others and in public or private, to manifest his religion or belief in teaching, practice, worship and observance.

Article 19.

Everyone has the right to freedom of opinion and expression; this right includes freedom to hold opinions without interference and to seek, receive and impart information and ideas through any media and regardless of frontiers.

Article 23.

(1) Everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment.

(2) Everyone, without any discrimination, has the right to equal pay for equal work.

(3) Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection.

(4) Everyone has the right to form and to join trade unions for the protection of his interests.

Article 25.

(1) Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.

Article 26.

(1) Everyone has the right to education.

distinguishing central interests from mere wants. Our fundamental ethical rights, and the duties that follow from them, are derived from our nature as free and rational beings. They are, according to much of this tradition, “natural rights” that are more fundamental and persistent than the legal rights created by governments and social contracts.

Distinguishing between Moral Rights and Legal Rights



OBJECTIVE

It will be helpful at this point to distinguish between moral rights and legal rights. To illustrate this distinction, let us take employee rights as an example. Three senses of employee rights are common in business. First, there are those *legal* rights granted to employees on the basis of legislation or judicial rulings. Thus, employees have a right to a minimum wage, equal opportunity, to bargain collectively as part of a union, to be free from sexual harassment, and so forth. Second, employee rights might refer to those goods that employees are entitled to on the basis of contractual agreements with employers. In this sense, a particular employee might have a right to a specific health care package, a certain number of paid holidays, pension funds, and the like. Finally, employee rights might refer to those moral entitlements to which employees have a claim independently of any particular legal or contractual factors. Such rights would originate with the respect owed to them as human beings.

To expand on this understanding, consider how legal and contractual rights interact. In general, both parties to an employment agreement bargain over the conditions of work. Employers offer certain wages, benefits, and working conditions and in return seek worker productivity. Employees offer skills and abilities and seek wages and benefits in return. Thus, employment rights emerge from contractual promises. However, certain goods are legally exempt from such negotiation. An employer cannot make a willingness to submit to sexual harassment or acceptance of a wage below the minimum established by law a part of the employment agreement. In effect, legal rights exempt certain interests from the employment contract. Such legal rights set the basic legal framework in which business operates. They are established by the legal system in which business operates and, in this sense, are part of the price of doing business.

So, too, moral rights lie outside of the bargaining that occurs between employers and employees. Unlike the minimum wage, moral rights are established and justified by moral, rather than legal, considerations. Moral rights establish the basic moral framework for the legal environment itself, and more specifically for any contracts that are negotiated within business. Thus, as described in the United States Declaration of Independence, governments and laws are created in order to secure fundamental natural moral rights. The rights outlined on the previous page in the excerpt from the United Nations fit this conception of fundamental moral rights.

Social Justice: Rawlsian Justice as Fairness

We have introduced and examined utilitarianism as a theory that guides decisions based on the consequential outcomes of our actions and a second theory that guides us to explore the moral principles implicated by our decisions. We will now examine

a third important approach that will provide insights into our decision-making process, a theory of social justice based on fairness as its primary social principle.

The American philosopher John Rawls has developed one of the most powerful and influential accounts of justice. Rawls offers a contemporary version of the social contract theory that understands basic ethical rules as part of an implicit contract necessary to insure social cooperation. Rawls's theory has proven influential in political theory, economics, and the law. Rawls's theory of justice consists of two major components: a method for determining the principles of justice that should govern society, and the specific principles that are derived from that method.

The method itself is a version of the hypothetical social contract, which can be a valuable tool for our own ethical decision making. Imagine rational and self-interested individuals having to choose and agree on the fundamental principles for their society. The image of members of a constitutional convention is a helpful model for this idea. To ensure that the principles are fair and impartial, imagine further that these individuals do not know the specific details or characteristics of their own lives. They do not know their abilities or disabilities and talents or weaknesses; they have no idea about their position in the social structure of this new society. They are, in Rawls's terms, behind a "**veil of ignorance**" and must choose principles by which they will abide when they come out from behind the veil. To ensure that each individual is treated as an end and not as a means, imagine finally that these individuals must *unanimously* agree on the principles. These initial conditions of impartiality, what Rawls calls the "original position," guarantee that the principles chosen are fair—the primary value underlying Rawls's concept of justice.

The idea of this "original position," of having to make decisions behind a veil of ignorance, is at the heart of Rawls's theory that fairness is the central element of a just decision or just organization. He contends that our decisions *ought* to be made in such a way, and our social institutions *ought* to be organized in such a way, that they would prove acceptable to us *no matter whose point of view we take*. A fair decision is an impartial decision. Rawls would argue that the only way we can reach this conclusion is to seek out the original perspective from behind a veil of ignorance, to imagine ourselves ignorant with regard to our position and strive toward impartiality. See the Pie Chart Reality Check that follows for a demonstration of how this is applied.

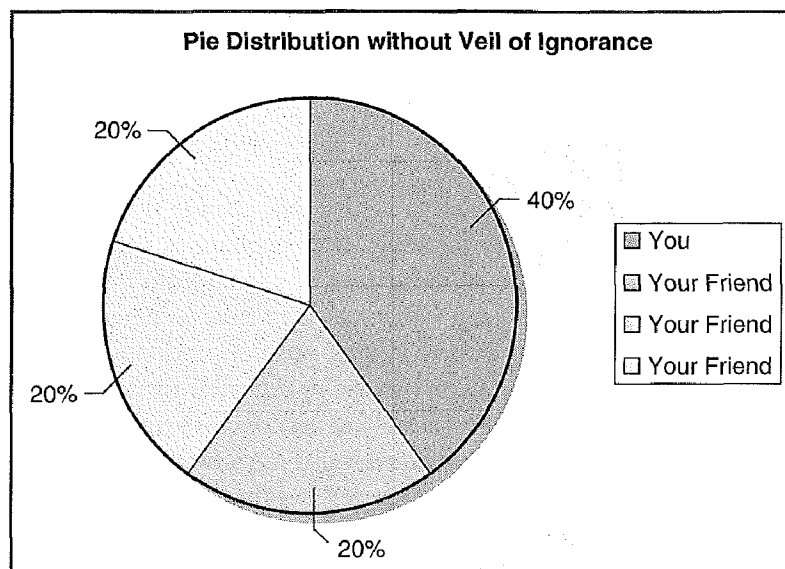
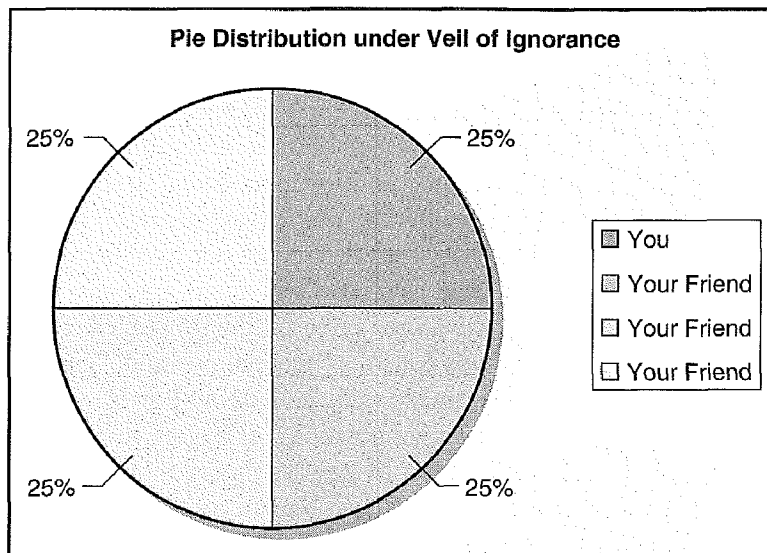
The specific principles of justice that emerge from this decision procedure are also valuable tools for thinking about economics and business institutions. Rawls derives two fundamental principles of justice from this original position. The first principle states that each individual is to have an equal right to the most extensive system of liberties. In the original position, individuals would demand as much freedom as possible, but no rational or self-interested individual would be willing to sacrifice his own equality simply to secure more freedom for others. This first principle therefore argues that equal rights are a fundamental element of social justice.

The second principle that is derived from the veil of ignorance holds that benefits and burdens of a society should generally be distributed equally. An unequal distribution could be justified only if it would benefit the least advantaged members of society and only if those benefits derive from positions for which each person has an equal opportunity. Thus Rawls's justice as fairness would imply

Reality Check *A Pie Chart Demonstration*

A simple example can be demonstrated with your favorite dessert. If you are charged with cutting a pie before the arrival of the guests, you might not know which slice will be yours once your guests are allowed to choose theirs first. This is comparable to having to decide behind the veil of ignorance. Therefore, you are likely to cut each slice the same size to ensure that you will at least end up with a slice as large as

everyone else's. The same will be true, Rawls would argue, with the distribution of goods and services in a social group. If you are not certain in which group you might fall once the hypothetical veil is lifted, you are most likely to treat each group with the greatest care and equality in case that is the group in which you later find yourself.



very specific conclusions regarding such business and social issues as tax policy, affirmative action, executive compensation, and government regulation.

Virtue Ethics: Making Decisions Based on Integrity and Character



OBJECTIVE

For the most part, utilitarian and deontological approaches to ethics focus on rules and principles that we might follow in deciding what we should do, both as individuals and as citizens. These approaches conceive of practical reason in terms of deciding how to act and what to do. Chapter 1 pointed out, however, that ethics also involves questions about the type of person one should become. 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. See the Reality Check on the next page for a discussion of the language used to describe those traits.

To understand how virtue ethics differs from utilitarian and deontological approaches, consider the problem of **egoism**. As mentioned above, egoism is a view that holds that people act only out of self-interest. Many economists, for example, assume that all individuals always act out of self-interest; indeed, many assume that rationality itself should be defined in terms of acting out of self-interest. The biggest challenges posed by egoism and, according to some, the biggest challenge to ethics, is the apparent gap between self-interest and altruism, or between motivation that is “self-regarding” and motivation that is “other-regarding.” Ethics requires us, at least at times, to act for the well-being of others. Yet, some would claim that this is not possible, that humans act only from self-interested motives. (See the Reality Check on page 85.)

An ethics of virtue shifts the focus from questions about what a person should *do*, to a focus on who that person *is*. This shift requires not only a different view of ethics but, at least as important, a different view of ourselves. Implicit in this distinction is the recognition that our identity as a person is constituted in part by our wants, beliefs, values, and attitudes. A person’s character—those dispositions, relationships, attitudes, values, and beliefs that popularly might be called a “personality”—is not a feature independent of that person’s identity. Character is not like a suit of clothes that you step into and out of at will. Rather, the self is identical to a person’s most fundamental and enduring dispositions, attitudes, values, and beliefs.

Note how this shift to an emphasis on the individual changes the nature of justification in ethics. If, as seems true for many people, an ethical justification of some act requires that it be tied to self-interest, we should not be surprised to find that this justification often fails. Ethical controversies often involve a conflict between self-interest and ethical values. Why should I do the ethical thing if it would require me to give up a lot of money? For a personality that does not already include a disposition to be modest, the only avenue open for justification would involve showing how the disposition serves some other interest of that person. Why should an executive turn down a multimillion dollar bonus? The only

Reality Check *Virtues in Practice*

The language of virtues and vices may seem old-fashioned or quaint for modern readers, but this was a dominant perspective on ethics in the Western world for centuries. If you develop a list of adjectives that describe a person's character, you will find that the language of virtues and vices is not as outdated as it may seem.

The ancient Greeks identified four primary virtues: courage, moderation, wisdom, and justice. Early Christians described the three cardinal virtues of faith, hope, and charity. Boys Scouts pledge to be trustworthy, loyal, helpful, friendly, courteous, kind, obedient, cheerful, thrifty, brave, clean, and reverent.

According to ancient and medieval philosophers, the virtues represented a balanced mean, the "golden mean," between two extremes, both of which would be considered vices. Thus, for example, a brave person finds the balance between too little courage, which is cowardice, and too much courage, which would be reckless and foolhardy.

The virtues are those character traits, or habits, that would produce a good, happy, and meaningful life. Practicing such virtues and habits, and acting in accord with one's own character, is to live a life of integrity.

way to answer this question appears to be to show how it would be in his self-interest to do so. But this is at times unlikely.

On the other hand, for the person already characterized by modest and unaffected desires, the question of justifying a smaller salary is less relevant. If I am the type of person who had moderate and restrained desires for money, then there is no temptation to be unethical for the sake of a large bonus. For many people, the "self" of self-interest is a caring, modest, unaffected, altruistic self. For these people, there simply is no conflict between *self*-interest and altruism.

The degree to which we are capable of acting for the well-being of others therefore seems to depend on a variety of factors such as our desires, our beliefs, our dispositions, and our values; in short, it depends on our character or the type of person we are. For those who are caring, empathetic, charitable, and sympathetic, the challenge of selfishness and egoism is simply not a factor in their decision making.

Virtue ethics emphasizes the more affective side of our character. Virtue ethics recognizes that our motivations—our interests, wants, desires—are not the sorts of things that each one of us chooses anew each morning. Instead, human beings act in and from character. By adulthood, these character traits typically are deeply ingrained and conditioned within us. Given that our character plays such a deciding role in our behavior, and given the realization that our character can be shaped by factors that are controllable (by conscious individual decisions, by how we are raised, by the social institutions in which we live, work, and learn), virtue ethics seeks to understand how those traits are formed and which traits bolster and which undermine a meaningful, worthwhile, and satisfying human life so that we can take responsibility for the person we become.

Virtue ethics can offer us a more fully textured understanding of life within business. Rather than simply describing people as good or bad, right or wrong, an ethics of virtue encourages a fuller description. For example, we might describe Aaron Feuerstein as heroic and courageous. He is a man of integrity, who sympathizes

Reality Check *Is Selfishness a Virtue?*

Does ethics demand that we sacrifice our own interests for others? If so, is this reasonable? Is it even possible?

The tension between ethics and self-interest has been central to philosophical ethics since at least the time of Socrates and Plato. Ethical responsibilities certainly seem to require that we sometimes restrict our own actions out of consideration for the interests of other people. Yet, some thinkers have concluded that such a requirement is unreasonable and unrealistic. It is unreasonable because it would be too much to ask people to act against their own self-interest; and it would be unrealistic because, in fact, it is simply part of human nature to be selfish.

Twentieth-century philosopher Ayn Rand argued that selfishness is a virtue. Rand denied that altruism, acting for the interests of others, was an ethical virtue. Altruism too easily makes people predisposed to sacrifice for others and ignore their own basic interests. Instead, she argued that ethically responsible persons should be motivated by a concern with their own interests. From this perspective, selfishness is a virtue; people who act out of consideration for their own interests will live more fulfilling and happy human lives.

This philosophical starting point has led many thinkers, including Rand herself, to adopt a political and social philosophy of libertarianism. This is the

view that the fundamental right of individuals is the right to liberty, understood as the right to be free from interference by others. Libertarianism also provides philosophical support for free market capitalism and is often the ethical view implicit in the thinking of people in business. Free markets are the economic system that best serve the libertarian goal of protecting individual rights of liberty.

But even Rand recognized that selfishness in this philosophical sense is not the same as what is commonly understood as selfish behavior. Simply doing whatever one wants will not necessarily advance one's own self-interest. The behavior of the stereotypical selfish and self-centered person who is antagonistic to others is not likely to lead to a happy, secure, and meaningful life. Rand recognized that self-interest, properly understood, may sometimes demand that we restrict and regulate our own desires. Further, since the virtue of selfishness applies equally to all people, our own self-interest is limited by the equal rights of others.

Thus, Rand's version of libertarianism is not as extreme as it might first appear. No ethical tradition expects people to live a life of total self-sacrifice and self-denial. But even those who might be described as ethical egoists concede that rational self-interest does create ethical limits to our own actions and that narrowly selfish people are unethical.

with employees and cares about their well-being. Other executives might be described as greedy or ruthless, proud or competitive. Faced with a difficult dilemma, we might ask what a person with integrity would do. What would an honest person say? Do I have the courage of my convictions? In other words, you might consider someone you believe to be virtuous and ask yourself what that person would do in a specific situation. What would a virtuous person do?

But virtue ethics seeks more than a detailed description of business life. Like all ethical theories, virtue ethics is also prescriptive in offering advice on how we should live. Virtue ethics calls on us to reflect on two deeper questions. Given a more detailed and textured description of moral behavior, which set of virtues are more likely to embody a full, satisfying, meaningful, enriched, and worthy human life? Business provides many opportunities for behavior that is generous or greedy, ruthless or compassionate, fair or manipulative. Given these opportunities, each one of us must ask which character traits are likely to help us live a good life and which are likely to frustrate this. What type of person are we to be?

Besides connecting the virtues to a conception of a fuller human life, virtue ethics also reminds us to examine how character traits are formed and conditioned. By the time we are adults, much of our character is formed by such factors as our parents, schools, church, friends, and society. But powerful social institutions such as business and especially our own places of employment and our particular social roles within them (e.g., manager, professional, trainee) have a profound influence on shaping our character. Consider an accounting firm that hires a group of trainees fully expecting that fewer than half will be retained and anticipating that only a very small group will make partner. That corporate environment encourages motivations and behavior very different from a firm that hires fewer people but gives them all a greater chance at long-term success. A company that sets unrealistic sales goals will find it creates a different sales force than one that understands sales more as customer service. Virtue ethics reminds us to look to the actual practices we find in the business world and ask what type of people these practices are creating. Many individual moral dilemmas that arise within business can best be understood as arising from a tension between the type of person we seek to be and the type of person business expects us to be.

Consider an example described by a researcher conducting empirical studies of the values found in marketing firms and advertising agencies. This person reported that, on several occasions, advertising agents told her they would never allow their own children to watch the television shows and advertisements that their firm was producing. By their own admission, the ads for such shows aim to manipulate children into buying, or getting their parents to buy, products that had little or no real value. In some cases, the ads promoted beer drinking and the advertisers themselves admitted, as their “dirty little secret,” that they were intended to target the teenage market. Further, their own research evidenced the success of their ads in increasing sales.

Independent of the ethical questions we might ask about advertising aimed at children, a virtue ethics approach would look at the type of person who is so able to disassociate himself and his own values from his work, and the social institutions and practices that encourage it. What kind of person is willing to subject others’ children to marketing practices that are unacceptable for his own children? Such a person seems to lack even the most elementary form of personal integrity. What kind of institution encourages people to treat children in ways that they willingly admit are indecent? What kind of person does one become working in such an institution?

A Decision-Making Model for Business Ethics Revisited

This chapter provided a detailed introductory survey of ethical theory. While some of these topics might appear esoteric and too abstract for a business ethics class, they have a very practical aim. Understanding the philosophical basis of ethics will enable you to become more aware of ethical issues, better able to recognize the impact of your decisions, and more likely to make better informed and more reasonable decisions. In addition, the theories allow us to better and more articulately explain why we have made or wish to make a particular decision. While a statement such as “we should engage in this practice because it is right” might

Reality Check *Can Virtue Be Taught?*

Plato's famous dialogue the *Meno* opens with the title character asking Socrates this basic question: Can virtue be taught? If ethics involves developing the right sort of character traits and habits, as the virtue theorist holds, then the acquisition of those traits becomes a fundamental question for ethics. Can we teach people to be honest, trustworthy, loyal, courteous, moderate, respectful, and compassionate?

Meno initially cast the question in terms of two alternatives: either virtue is taught, or it is acquired naturally. In modern terms, this is the question of nurture or nature, environment or genetics. Socrates' answer is more complicated. Virtue cannot simply be taught by others, nor is it acquired automatically through nature. Each individual has the natural potential to become virtuous, and learning from one's surroundings is a part of this process. But, ultimately, virtues must be developed by each individual through a complex process of personal reflection, reasoning, practice, and observation, as well as social reinforcement and conditioning.

Virtues are habits, and acquiring any habit is a subtle and complex process.

Parents confront this question every day. I know my children will lead happier and more meaningful lives if they are honest, respectful, cheerful, and moderate and not greedy, envious, gloomy, arrogant, or selfish. Yet, simply telling my children to be honest and to avoid greed is insufficient. Nor can I remain passive and assume that these traits will develop naturally. Instilling these character traits and habits is a long-term process that develops over time.

Business institutions also have come to recognize that character formation is both difficult and unavoidable. Employees come to business with certain character traits and habits, and these can be shaped and reinforced in the workplace. Hire a person with the wrong character traits, and there will be trouble ahead. Designing a workplace, creating a corporate culture, to reinforce virtues and discourage vice is one of the greatest challenges for an ethical business.

seem a bit vague or unpersuasive, an alternate explanation such as "we should engage in this practice because more people will be better off than harmed if we do so" could be tremendously effective and convincing. When a decision leader asks you why you support or oppose a specific proposal, your response now has comprehensive substance behind it and will therefore be more sophisticated, credible, and influential.

These ethical theories and traditions also provide important ways to develop the decision-making model introduced in Chapter 2. These ethical theories, after all, provide systematic and sophisticated ways to think and reason about ethical questions. By analyzing dilemmas with the theories presented in this chapter and revisited throughout the text, one is better able to gain insights, to observe perspectives that might have otherwise gone unnoticed, to be empathetic to the impact of a decision on others, to be sensitive to the protection of fundamental rights and duties, and to remain cognizant of one's duty to one's self and one's own integrity and values.

We now can offer a more detailed version of our decision-making model, one in which ethical theories are integrated into an explicit decision procedure. The decision-making process introduced here aims, above all else, to help you make ethically responsible business decisions. To summarize, we next review that decision-making process in more detail.

1. **Determine the facts.** Gather all of the relevant facts. It is critical at this stage that we do not unintentionally bias our later decision by gathering only those facts in support of one particular outcome.
2. **Identify the ethical issues involved.** What is the ethical dimension? What is the ethical issue? Often we do not even notice the ethical dilemma. Avoid normative myopia.
3. **Identify stakeholders.** Who will be affected by this decision? What are their relationships, their priorities to me, and what is their power over my decision or results? Who has a stake in the outcome? Do not limit your inquiry only to those stakeholders to whom you believe you owe a duty; sometimes a duty arises as a result of the impact. For instance, you might not necessarily first consider your competitors as stakeholders; however, once you understand the impact of your decision on those competitors, an ethical duty may arise.
4. **Consider the available alternatives.** Exercise “moral imagination.” Are there creative ways to resolve conflicts? Explore not only the obvious choices, but also those that are less obvious and that require some creative thinking or moral imagination to create. Imagine how the situation appears from other points of view.
5. **Consider how a decision affects stakeholders.** Take the point of view of other people involved. How is each stakeholder affected by my decision? Imagine a decision that would prove acceptable to all parties. Compare and weigh the alternatives: Ethical theories and traditions can help here. Consider the following issues:
 - What are the consequences, both beneficial and harmful?
 - Who gets the benefits? Who bears the costs?
 - What duties, rights, and principles are involved?
 - What does the law say?
 - Are professional duties involved?
 - Which principles are obligatory?
 - How are people being treated?
 - What is a fair and impartial decision?
 - What are the implications for personal integrity and character?
 - What type of person am I becoming through this decision?
 - What are my own principles and purposes?
 - Can I live with public disclosure of this decision?
6. **Guidance.** Can you discuss the case with relevant others? Can you gather additional opinions or perspectives? Are there any guidelines, codes, or other external sources that might shed light on the dilemma?
7. **Assessment.** Have you built in mechanisms for assessing your decision and making possible modifications, if necessary? Make sure you learn from each decision and utilize that increased knowledge as you face similar decisions in the future or as your current situation changes.

Opening Decision Point Revisited

Social Benefits and Personal Duties: Should Managers Value Supplier Loyalty?

One crucial lesson this Decision Point raises is that many business decisions implicitly involve a wide range of ethical issues. The purchasing manager may well believe that the decision to outsource suppliers is simply a financial decision. The manager is behaving as the business, financial, and economic system expects. But it should be clear that financial and ethical considerations are not mutually exclusive. Business decisions often involve both. One does not avoid ethical responsibility by making a financial decision. Finance and business management are not value-neutral.

If pressed for an ethical rationale, the manager might also cite an economic justification in terms of overall job growth, economic efficiency, and lower prices to consumers. The manager would also likely refer to the duty to maximize return for stockholders. But these, too, are clearly ethical factors. At their base, many of these economic justifications are utilitarian. Economic efficiency is the best policy because it will lead to the greater overall good. Managers also have duties to stockholders because of their ownership rights in the company.

Implicit within the financial and economic framework taught in business schools is a very clear ethical perspective. Those who deny a place for ethics in a business school curriculum often lose sight of this fact. The economic theory of market capitalism, and the theories of business management, finance, marketing, and accounting implied by that economic theory, already presuppose a range of ethical values. The utilitarian goal of economic growth and economic efficiency, along with the rights and duties associated with private and corporate property, are inevitably involved in business decisions. Ethical decision making requires only that such values be made explicit and that other ethical values also be acknowledged.

Loyalty surely has a place in personal and social relationships. But does it have a role in business relationships? Some would argue that loyalty is seldom a two-way street in business. A company may ask for or expect loyalty from employees, by asking them to sacrifice free time on the weekend to work, for example. But companies may not be as willing to sacrifice for employees in return. Citizens are expected to be loyal to their own country, but are corporations citizens? If the law treats a corporation as a legal person, does this imply that the corporation has a specific duty of loyalty to the country? Should a company sacrifice profits by declining to outsource jobs and production?

Questions, Projects, and Exercises

1. What makes an ethical decision or issue *ethical*? How would you explain the differences between ethical/nonethical and ethical/unethical? What ethical issues or dilemmas have you experienced in the workplace? Are any ethical issues or dilemmas presently being discussed at your school?
2. Are some ethical values or principles relative to one's own culture, religion, or personal opinion? Are some ethical values not culturally relevant? What makes them different?

3. Do an Internet search on international human rights and/or fundamental moral rights. Can you make the argument that any moral rights are universally acknowledged?
4. Why might the political goal of economic growth be considered a utilitarian goal?
5. Some political philosophers consider the ethical foundations of legislatures to be utilitarian, while the ethical foundation of the judiciary is deontological. How would you explain this distinction?
6. Do people have a right to do whatever they want? If not, in what sense can people have a right to liberty or personal freedom?
7. Can such character traits as honesty, loyalty, trustworthiness, compassion, and humility be taught? Do people learn to be selfish, greedy, and aggressive, or do these traits come naturally?
8. Do professionals such as accountants and lawyers have duties and obligations that other people do not? From where would such duties come?

Key Terms

After reading this chapter, you should have a clear understanding of the following Key Terms. The page numbers refer to the point at which they were discussed in the chapter. For a more complete definition, please see the Glossary.

autonomy, <i>p.</i> 78	deontological ethics, <i>p.</i> 66	social contract theory, <i>p.</i> 76
categorical imperative, <i>p.</i> 77	duties, <i>p.</i> 73	utilitarianism, <i>p.</i> 66
character, <i>p.</i> 66	egoism, <i>p.</i> 83	veil of ignorance, <i>p.</i> 81
consequentialist theories, <i>p.</i> 70	loyalty, <i>p.</i> 64	virtue ethics, <i>p.</i> 66
	rights, <i>p.</i> 66	

Readings

- Reading 3-1: “The Justification of Human Rights,” by Denis Arnold, *p.* 90**
Reading 3-2: “Do CEO’s Get Paid Too Much?,” by Jeffrey Moriarty, *p.* 95
Reading 3-3: “Caux Principles for Business,” *p.* 105

Reading 3-1

The Justification of Human Rights

Denis G. Arnold

Human rights are moral rights that apply to all persons in all nations, regardless of whether the nation in which a person resides acknowledges and protects those rights. It is in this sense that human rights are said to be *inalienable*. In order to think about human rights in a meaningful way, it is necessary to answer certain philosophical questions about their nature. Three of the most basic questions are the following: How can human rights be justified? What specific human rights exist? How do human rights differ from other rights, such as legal rights? Let us consider each question in turn.

Philosophical Foundations

Human rights are rights enjoyed by humans not because we are members of the species *Homo sapiens*, but because fully functional members of our species are persons. Personhood is a metaphysical category that may or may not be unique to *Homo sapiens*. To be a person one must be capable of reflecting on one's desires at a second-order level, and one must be capable of acting in a manner consistent with one's considered preferences (Dworkin, 1988; Frankfurt, 1988). First-order desires are the assortment of desires that occupy one's conscious mind and compete for one's attention. Second-order desires are desires about those first-order desires. When one embraces a particular first-order desire at a second-order level, it becomes a preference. A mundane example will help to illustrate this concept. Each of us is likely to have found ourselves staring at a bedside clock after having turned off an early morning alarm. Lying comfortably in bed, one might reflect on one's immediate desires: to get up and go for a run; to get up and prepare for an early morning meeting; or to roll over and return to sleep. The process of reflecting on these competing desires takes place at a second-order level of consciousness. It is the capacity to reflect on one's competing desires and to act in a manner consistent with our second-order preferences that distinguishes persons from mere animals. This is not to say that one cannot sometimes fail to act in a manner consistent with one's better judgment and still be regarded as a person. Indeed, most of us are intimately familiar with such weakness of the will. The point is that we enjoy this capacity, and we are capable of acting in a manner consistent with this capacity. Furthermore, if a human were constitutionally incapable of acting in a manner consistent with his or her second-order preferences, he or she would not be properly described as a person. It is in this sense that the idea of personhood is properly understood as metaphysical rather than biological (Melden, 1977).

Theorists with a wide range of commitments readily agree that persons enjoy a basic right to individual freedom, and that other persons have a duty not to restrict or constrain the freedom of others without strong justification (Nozick, 1974; Lomasky; O'Neill). This right is grounded in Kant's second formulation of the categorical imperative: "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" (Kant, 1990, p. 46). The popular expression of this principle is that morality requires that we respect people. Kant provides a sustained defense of the doctrine of respect for persons, and he and his interpreters specify in detail its practical implications. Respecting other persons requires that one refrain from interfering with their decisions and actions. Typically one person is justified in limiting the freedom of another only when her own freedom is unjustly restricted by that person. One traditional way of capturing this sense of a liberty right is that individuals should be free to have as much liberty or freedom as is compatible with like liberty or freedom for all.

There is little controversy regarding the negative right to liberty or freedom. However, there is significant controversy over whether or not there are positive rights to certain economic and social goods. Positive rights entail not merely negative obligations on the part of others to refrain from certain actions, but a positive obligation to fulfill the right of the rights holder. For example, if individuals have a right to employment or health care in order to ensure their subsistence and well-being, then others have an obligation to provide them with health care or employment. The state may be called upon to fulfill these duties, but in weak or corrupt states such duties may be neglected. And in states where market values trump consideration for basic human rights, such rights may also be neglected. Under such conditions the burden of fulfilling such obligations seems to fall on individuals, but most

individuals are not well positioned to meet such obligations. Furthermore, even in cases where the state does meet such alleged obligations, traditional libertarians would argue that it is illegitimate to tax some citizens in order to ensure the subsistence and well-being of others (Nozick, 1974). Have we reached an impasse?

Arguably there are at least two philosophically sound reasons for thinking that we can move beyond this apparent impasse. First, there is an influential and persuasive argument against the idea that the distinction between negative and positive rights is unsustainable. Second, there is a widely influential set of positive arguments that can be used to support both a right to freedom and minimal welfare rights such as the right to subsistence. Let us consider each argument in turn.

Henry Shue has famously argued that the very distinction between negative and positive rights that the preceding analysis presumes is artificial and inconsistent with social reality (1996). For example, consider the right to physical security (i.e., the right not to be harmed). It is possible to avoid violating a person's right not to be harmed by refraining from certain actions. However, it is not possible to protect a person from harm without taking proactive steps. At a minimum, law enforcement agencies and a criminal justice system are required so that individuals are not left to defend themselves against forces that they are unable to defeat on their own. The existence of these social institutions is predicated on positive actions in the forms of design, implementation, administration, and taxation. In this way it can be seen that the protection of a prototypical negative right requires positive actions, and not merely the avoidance of particular actions. Since negative rights entail both negative and positive duties, the notion of negative versus positive rights loses its meaning. There are only rights and corresponding obligations, but the obligations that correspond to these rights are both negative and positive. There is then a strong argument against a theory of rights that includes negative but not positive rights.

Much of the most important and influential work on human rights has been produced by Kantians. Rather than beginning with rights claims, Kantians begin with obligations or duties to respect other persons. These duties constrain the pursuit of ends, whether they are self-interested goals or projects pursued on behalf of other parties such as shareholders. Respecting persons involves both negative obligations, such as refraining from using others as mere tools via physical force, coercion, or manipulation, and positive obligations such as supporting physical well-being and the development of basic human capacities. When they stand in the appropriate relationship to an obligation-bearer, persons have rationally justified rights-claims against them. Rights take the form of side-constraints that bound the moral space in which agents may pursue ends without unjustified interference by other agents or institutions. For example, a minor child has legitimate rights-claims against her parents regarding her physical well-being and the development of her human capacities by virtue of her relation to them. The morally legitimate ends of parents do not include actions that substantially undermine the physical well-being or normal development of their child. Similarly, a convenience store owner has a rights-claim against those in his community to be free from assault and robbery. The morally legitimate ends of other community members do not include actions that would undermine the freedom of the store owner.

Wherever corporations do business they are already in special relationships with a variety of stakeholders, such as workers, customers, and local communities. In their global operations and in their global supply chains, corporations have a duty to respect those with whom they have relationships. Corporate managers, then, have obligations both to ensure that they do not illegitimately undermine the liberty of any persons, and the additional obligation to help ensure that minimal welfare rights to physical well-being and the development of basic human capacities are met within their spheres of influence. For

example, corporations have sufficient power and coercive influence to ignore the labor and environmental laws in many developing nations. These host nations typically lack the police and judicial infrastructure necessary to enforce such laws. Host nation governments may also be fearful that if they enforce their own laws, then the corporations may move their operations to nations that are willing to ignore local laws. However, such laws are essential for the protection of the basic rights of the citizens of developing nations. For this reason, corporate managers have an obligation to ensure that local host nations' laws are respected.

Human Rights versus Legal Rights

Human rights differ from legal rights in that, unlike legal rights, the existence of human rights is not contingent upon any institution. Many nations grant their citizens certain constitutional or legal rights via foundational documents or legal precedent. However, the rights that are protected vary among nations. Some nations ensure that the rights of citizens are protected via effective policing and an independent judiciary. Frequently, however, poor citizens and disfavored groups are not provided with the same level of protection for their legal rights as the economic and political elite. Persons who are deprived of their rights do not thereby cease to have those rights. As A.I. Melden has argued (1977, pp. 167–168):

... the complaint that persons are deprived of their human rights when, for example, they are subjected to forced indenture by their employers, is a complaint that their rights have been violated and implies, clearly, that they have rights they are unjustly prevented from exercising. If one were deprived of one's rights in the sense in which one would be deprived of things in one's physical possession by having them taken away, one would no longer have the rights, and there would be no grounds for the complaint. So it is with the denial of a person's right—this does not consist in denying that he has the right but, rather, in denying him, by withholding from him, that to which he has the right or the means or opportunity for its exercise.

Employers may deny employees or other stakeholders their inalienable right to freedom and well-being, whether or not local governments are complicit, but in doing so they in no way diminish the legitimacy of the claims of their employees to those rights. However, by virtue of their failure to properly respect these stakeholders, such employers succeed in diminishing their own standing in the community of rights holders.

In the weak and failed states where many multinational corporations operate, they are often the most powerful institutions in existence. In such cases, corporate managers are uniquely situated to help ensure that the basic rights of individuals within their spheres of influence are protected. Many corporations have embraced this obligation. For example, Mattel ensures that all of the factories in its global supply chains meet basic human rights standards. Nike provides micro-loans to community members in the areas where it has large contract factories, thus providing additional help to improve the economic well-being of these communities. And Adidas ensures that the basic rights of workers in its contract factories are respected, while using its occupational safety expertise to help noncontract factories in those same communities improve working conditions.

Are Human Rights a Western Concept?

At this point in our discussion, it is worthwhile to consider an objection to the foregoing argument concerning human rights. This criticism stems from the observation that the idea

of human rights emerged from the Western philosophical tradition, but is taken to be universal in its applicability. The claim is then made that human rights are of less importance in the value systems of other cultures. For example, it is argued that “Asian values” emphasize order, discipline, and social harmony, as opposed to individual rights. In this view, the freedom and well-being of individuals should not be allowed to interfere with the harmony of the community, as might be the case, for example, when workers engage in disruptive collective action in an effort to secure their rights. This view might also be used to defend the claim that the moral norms that govern Asian factory operations should emphasize order and discipline, not freedom and well-being.

Several points may be made in reply to this objection. First, Asia is a large region with a vast and heterogeneous population. As Amartya Sen and others have argued, to claim that all, or even most, Asians share a uniform set of values is to impose a level of uniformity that does not exist at present and has not existed in the past (Donnelly, 1999; Sen, 1999a, 2000; Tatsuo, 1999). Second, in secular, democratic Asian societies such as India, respect for individual rights has a long tradition. Indeed, there are significant antecedents in the history of the civilizations of the Indian subcontinent that emphasize individual freedom and well-being. For example, in the third century BC, the Emperor Ashoka granted his citizens the freedom to embrace whatever religious or philosophical system they might choose, while at the same time he emphasized the importance of tolerance and respect for philosophical and religious beliefs different than one’s own (Sen, 1999a). Third, even if it was the case that Asian cultures shared a uniform set of values that de-emphasized human rights, this would not by itself provide good reasons for denying or disrespecting the rights to freedom and well-being. This is because the justification of human rights provided above is grounded in rational arguments that are valid across cultures. Jack Donnelly makes a similar point in his recent defense of universal human rights (1999, p. 87):

One of the things that makes us human is our capacity to create and change our culture. Cultural diversity has in recent years increasingly come to be valued in itself. Westerners have in recent centuries been especially insensitive in their approach to such differences. Nonetheless, the essential insight of human rights is that the worlds we make for ourselves, intentionally and unintentionally, must conform to relatively universal requirements that rest on our common humanity and seek to guarantee equal concern and respect from the state for every person.

The critic is likely to retort that such a view reflects Western prejudices grounded in Enlightenment ideals. This response is unpersuasive. Diverse intellectual traditions have emphasized the importance of values derived from reason, rather than mythology, traditionalism, mere sentiment, or some other source. For example, in the sixteenth century the Moghul Emperor Akbar wrote (Sen, 2000, p. 37):

The pursuit of reason and rejection of traditionalism are so brilliantly patent as to be above the need for argument. If traditionalism were proper, the prophets would merely have followed their own elders (and not come with new messages).

Akbar arranged to have philosophers representing diverse religious and philosophical beliefs engage in rational discussions regarding the merits of their competing views, and sought to identify the most persuasive features of each view. In so doing, Akbar was able to emphasize the power and force of rational analysis. Given that a similar emphasis on rational analysis concerning values may be found in the histories of other non-Western cultures, the claim that such analysis is uniquely Western is unpersuasive.

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Reading 3-2

Do CEOs Get Paid Too Much?¹

Jeffrey Moriarty

America's corporate executives get paid huge sums of money. *BusinessWeek* estimates that, in 2003, CEOs of the 365 largest U.S. corporations were paid on average \$8 million, 301 times as much as factory workers. CEOs' pay packages, including salary, bonus, and restricted stock and stock option grants, increased by 340 percent from 1991 to 2001, while workers' paychecks increased by only 36 percent. What, if anything, is wrong with this?

* * * *

This paper attempts to advance the philosophical discussion of executive compensation. What is needed, I suggest, is an ethical framework for thinking about justice in pay. After elaborating this framework, I will argue that CEOs get paid too much.

* * * *

Three Views of Justice in Wages

To decide whether CEOs make too much money, we first need to consider what, in general, makes a wage just. In this section I will sketch three views of justice in wages, each of which is based on a widely recognized moral value . . . According to what I will call the “agreement view,” just prices for goods are obtained through arm’s-length negotiations between informed buyers and informed sellers. In our case, the good is the CEO’s services, the seller is the CEO, and the buyer(s) is (are) the company’s owner(s). Provided there are no imperfections (e.g., fraud, coercion) in the bargaining process, the agreement view says, the wage that comes out of it is just. Owners are free to do what they want with their money, and CEOs are free to do what they want with their services.

The “desert view” appeals to independent standards for justice in wages. It says that people deserve certain wages for performing certain jobs, whatever they might agree to accept for performing them. The wages people deserve may depend on facts about their jobs (e.g., their difficulty or degree of responsibility), people’s performances in them (e.g., how much effort they expend, how much they contribute to the firm), or both. According to the desert view, the CEO should be paid \$8 million per year if and only if he deserves to be paid \$8 million per year.

What I will call the “utility view” conceives of wages not as rewards for past work, but as incentives for future work. The purpose of wages on this view is to maximize firm wealth by attracting, retaining, and motivating talented workers. If, in our case, the CEO’s position is not compensated adequately, few talented candidates will apply or remain on the job for long, and the company as a whole will suffer. On the other hand, an expensive CEO can easily earn his keep through even small increases in the price of the company’s stock. According to the utility view, then, a compensation package of \$8 million per year is just if and only if it maximizes firm wealth by attracting, retaining, and optimally motivating a talented CEO.

* * * *

The Agreement View

According to this view, a just price for the CEO’s services is one that results from an arm’s-length negotiation between an informed CEO and informed owners. I will show that these negotiations are not, in general, conducted at arm’s-length. If they were, CEOs would be paid on average less than \$8 million per year.

The problem occurs mainly on the “buy” side of the equation, so we will focus our attention there. Since there are potentially tens of thousands of shareholders, there are potentially tens of thousands of buyers of the CEO’s services. This many people cannot effectively participate in negotiations with the CEO. Shareholders need representatives. The agreement view tells us that, to be legitimate, the representatives must meet two conditions. First, they must be independent of the CEO (the “arm’s-length” condition). If they have something to gain from advancing the CEO’s interests, they are likely to pay too much for his services. Second, they must be informed (the “informed buyer” condition). If

they do not know what kind of talent it takes to run their firm, and how rare that talent is, they are liable either to overpay a mediocre CEO or to underpay an exceptional one.

* * * *

Traditionally, shareholders are represented in negotiations with the CEO by a subset of the members of the company's board of directors. This may seem promising to those who appeal to the agreement view to justify the current level of CEO pay. Since directors are usually elected by shareholders, they might say, it is likely that the directors who negotiate with the CEO—those who form the board's "compensation committee"—are in fact independent and informed. If shareholders did not elect independent and informed directors, they would risk paying too much to an incompetent CEO, or too little to an exceptional one.

This hope is unfounded. First, there is no guarantee that shareholders would choose independent and informed representatives in a democratic election. Although parties who own large amounts of stock might be motivated to determine which of the candidates is independent and informed, many will not. Voters who do not familiarize themselves with the candidates have little chance of picking the right ones. Second, and more importantly, shareholders do not as a matter of fact elect directors in any meaningful way. When a seat on the board opens up, usually there is just one person who "runs" in the "election." Once a candidate is nominated, her election is a formality. What matters, then, is the nomination process. The group that controls it controls the board's membership. But in most cases this is not the shareholders but the board itself, whose chairman in 84 percent of American firms is the firm's CEO. Although there has been a trend away from direct CEO involvement in the nominating process in recent years most CEOs still wield considerable informal influence over it.

This is worrisome. Whereas shareholders may elect, out of apathy or ignorance, directors who are unfamiliar with the industry and friendly with the CEO, CEOs can encourage the appointment of such directors. Do they? The fact that CEOs who are appointed before the appointment of their compensation committee chairs are paid more, on average, than CEOs who are appointed after suggests that they do. Examining the composition of boards of directors more carefully, we see that, in general, directors may be informed, but they are not independent.

Three factors compromise directors' independence from their CEOs. The first is gratitude. The board member's job is prestigious, lucrative, and undemanding. Directors of the 200 largest American corporations receive on average \$179,000 for twenty days of work per year. They may also be given life and medical insurance, retirement benefits, and the use of company property such as automobiles and vacation homes. In addition, there is the considerable "social capital" directors acquire in the form of connections with influential people. Thus getting an appointment to a board is like getting a large gift. This is problematic, for it is natural for gift recipients to feel grateful to gift givers.

* * * *

Self-interest is the second factor compromising the independence of directors in pay negotiations with CEOs. To determine how much to pay their CEO, the board will usually find out how much CEOs of comparable firms are being paid. The more those CEOs make, the more the board will pay. This is good from the point of view of having knowledgeable directors. But CEO-directors have a self-interested reason to increase the pay of the CEO with whom they are negotiating. Suppose CEO A sits on CEO B's board, and A and B run comparable firms. The more pay A agrees to give to B, the more pay A himself will later receive. For when it comes time to determine A's pay package, B's pay package will be used as one of the reference points.

The third factor is not a reason directors have to favor CEOs; it is the absence of a reason directors should have to favor shareholders. Since they are paying with their own money, shareholders have a powerful incentive not to overpay the CEO. The more they pay the CEO, the less they have for themselves. Directors, by contrast, are not paying with their own money. Although they are often given shares in the company as compensation, directors are rarely required to buy them. So their incentive not to overpay the CEO is less powerful. It might be wondered whether shareholders can make it more powerful by threatening to recall overly generous directors. They cannot. Shareholders in most firms lack this power. In fact, not only will directors have nothing to fear if they do overpay the CEO, they will have something to fear if they do not. Shareholders cannot recall generous directors, but CEOs can use their power to force them out.

While admitting that these influences are problematic, it might be objected that they compromise the independence of directors only if directors are “on their own” in negotiations with CEOs. But they are not. Directors are usually assisted by compensation consultants who can make accurate and bias-free assessments of a CEO’s worth. On this view, provided that the board acts on the consultant’s recommendation, the wage it agrees to pay the CEO will be just.

This objection fails. The reason, according to the agreement view, the pay agreements between CEOs and shareholders’ representatives are unfair is that the latter group is not sufficiently independent of the former. But compensation consultants are hired to make sure boards are informed, not to make sure they are independent. Consultants can offer directors a variety of facts about CEO pay, and this will help them to avoid making obviously bad deals with the CEO. But, because of gratitude, self-interest, and lack of financial penalties, boards will still give CEOs a substantial benefit of the doubt when it comes to pay.

The Desert View

A familiar complaint about CEO pay—that it has increased in years when firms have performed badly—is grounded in the desert view of justice in wages. This complaint assumes that a CEO should get the wage he deserves, that the wage a CEO deserves is determined by his contribution to the firm, and that the proper measure of contribution is firm performance. If the firm performs worse in year two than in year one, the argument goes, the CEO deserves to make less, and therefore should make less, in year two than in year one. The agreement and utility views of justice in wages cannot account, except indirectly, for this intuition.

Two Problems

To determine whether CEOs deserve to make \$8 million per year, we must formulate, at least in part, a theory of desert of wages. Let us begin by discussing two of the problems we will face.

The first is identifying the standard(s) for deservingness. One cannot be deserving for no reason at all; there must be some reason for, or basis of, that desert. Economists sometimes write as if it were obvious that CEO pay, and pay generally, should be based on contribution, as measured by firm performance. This is far from clear. Philosophers have written extensively on the nature of desert, and have offered a variety of possible desert-bases for pay, including (i) the physical effort exerted by the worker, (ii) his contribution to the firm, (iii) the amount of ability, skill, or training his job requires, (iv) its difficulty, stress, dangerousness, risk, or unpleasantness, and (v) its degree of responsibility or importance. Some think a person’s desert of pay is determined by only one of these factors; others think it is determined by a combination of them.

How does the CEO's job fare? Compared to the jobs of ditch diggers and coal miners, it requires (i) relatively little physical effort. It is not unpleasant or dangerous in the way these jobs are, but it can be (iv) a considerable source of stress. Some writers suggest that CEOs are more prone to stress-related illness and burnout than average workers. According to one study CEOs work on average thirteen hours per day, including time spent traveling to meetings.

The CEO's job is also difficult in the sense that it requires the performance of a variety of complex tasks, such as negotiating deals, processing information, and meeting with subordinates and clients in leadership and ceremonial roles. The fact that CEOs wield significant power within already powerful organizations means that their jobs have (v) high degrees of responsibility. Decisions they make about budgets, personnel, and plant (re)location can affect thousands of people's lives. For the same reason, CEOs are in a position to make (ii) large contributions to their firms. What does it take to perform this job? Most CEOs have (iii) some formal education and many years of experience. Over 90 percent have college degrees; 50 percent hold advanced degrees. Of those who hold advanced degrees, 68 percent hold an MBA. The average CEO is fifty-three years old, and worked for his firm for thirteen years before becoming CEO. We see, then, that the CEO's job rates highly in some categories but not in others. So, depending on how the first problem is solved, we will get different answers to the question of how much CEOs deserve to be paid.

The second problem is connected to the first. Once we identify the base(s) for desert of wages, we must find a way of matching desert levels to pay levels. In other words, after determining what makes a person deserving, and how deserving he is, we have to decide what he deserves. Suppose effort is the basis of desert, and suppose the CEO works 3,000 hours in a year. How much does he deserve to be paid: \$300,000 or \$3 million? Or suppose contribution is the basis of desert, and suppose the firm's profits increase 20 percent in a year. We might think the CEO deserves a 20 percent raise. But what should his initial salary have been? Without a way of matching desert levels to pay levels, we have no way of answering this question.

This difficulty can be used to cast doubt on some of the traditional evidence that CEOs are overpaid. Consider again the complaint that CEO pay has risen while stock prices have fallen. Suppose the drop in a company's stock price is due directly to a decline in its CEO's performance. The fact that the CEO is contributing less now to his company than before does not mean that he is being paid too much now. It may mean that he was being paid too little before. Or consider the complaint that American CEOs make several times more than their foreign counterparts—roughly twenty-two times more than Japanese CEOs and six times more than British CEOs. A skeptic may say that British and Japanese CEOs make too little, not that American CEOs make too much. Again, if we cannot map desert-creating behavior onto pay, we cannot say for sure exactly how much CEOs deserve to be paid.

* * * *

In response, I will argue that, however much money CEOs deserve to make absolutely, they do not deserve to make 301 times as much as their employees. Given that their employees make on average \$27,000 per year, CEOs do not deserve to make on average \$8 million per year. CEOs are not 301 times as deserving as their employees.

Why CEOs Deserve Less Than They Get

Most of those who endorse the desert view of justice in wages think that the sole desert-base for wages is productive contribution. Let us begin with this view. We will consider other desert-bases below.

Under the assumption that contribution is the sole desert-base for pay, the CEO deserves to be paid 301 times what the average employee is paid if and only if his contribution to the firm is 301 times as valuable as the employee's. For every \$1 in revenue the employee generates, the CEO must generate \$301. To appreciate this idea, it may be helpful to think about it in another way. Suppose a manufacturing company M has 10,000 employees, 9,999 of whom engage in the (identical) assembly-line work that generates its products. And suppose in one year M generates \$1 billion in revenue. For M's CEO to deserve 301 times the pay of M's average assembly-line worker, he must generate \$29.2 million in revenue compared to the worker's \$97,100. If we imagine, more realistically, that M employs not only assembly-line workers and a CEO but also several middle managers, the result is not too different. If each of 100 middle managers generates \$500,000 in revenue, the CEO must generate \$27.8 million in revenue compared to the worker's \$92,200. Does this happen?

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We have not argued that no version of the desert view can be used to justify the current disparity between CEO and worker pay. There are other desert-bases to consider. It takes only a moment to see, however, that none of these desert-bases succeeds where this one fails.

Consider first physical effort. The job of the CEO requires less physical effort than many other jobs in the firm. So a desert view according to which effort is the sole desert-base for pay will not support the claim that the CEO deserves to be paid 301 times what the average worker is paid.

Consider next skill and difficulty. The average CEO is a highly skilled individual; his job requires the performance of complex tasks and can be a source of considerable stress. But is the CEO 301 times as skilled as the average employee? Is his job 301 times as difficult and stressful? The answer to these questions is no. Some may doubt this, perhaps because they have a very low opinion of most people's jobs. Consider, then, the job of a scientist in the company's research and development department. The scientist might be paid \$150,000 per year—1/53 the pay of the CEO. For the CEO to deserve to make \$8 million per year while the scientist makes \$150,000 per year, the CEO would have to be 53 times as skilled, perform tasks 53 times as difficult, or feel 53 times as much stress as the scientist. This is not the case. Often the scientist will be more skilled, and will perform more difficult tasks than the CEO. And the jobs of CEOs are not the only stressful jobs. According to one study, 25 percent of all employees report experiencing a "great deal" of stress of work.

The final possible desert-base is degree of responsibility. Initially, this may seem attractive to the defender of the status quo, for CEOs' decisions can affect the lives of thousands of people both inside and outside the firm. But it will not work either. The decisions of lower-level workers can be equally important. Had the Exxon Valdez's captain stayed sober, millions of gallons of oil might not have been spilled into the sea. Had a few maintenance personnel in Bhopal taken countermeasures instead of running from the scene, thousands might not have died. Some of the decisions of airplane pilots, bus drivers, and engineers can have as much riding on them as the decisions of the CEOs who run their companies.

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So far we have been comparing the pay of CEOs to the pay of lower-level employees within their firms. Additional evidence that CEOs do not deserve, by any standard of deservingness, to be paid \$8 million per year is found by comparing their pay to the pay of professionals in other fields. The average CEO makes roughly 53 times what a medical doctor, a military general, or a federal district court judge makes. But he is not 53 times as deserving as them. These jobs require similar amounts of physical effort. They all require extensive training, are difficult to perform, and have a high degree of responsibility. And

the people who perform them are in a position to make significant contributions to their organizations as well as to society as a whole. Thus we can believe either that medical doctors, military generals, and federal judges get paid far less than they deserve, or that CEOs get paid far more. The latter belief is more plausible.

I conclude—in the case of contribution, tentatively—that there is no standard of deservingness according to which CEOs deserve to make 301 times as much as their employees. If I am right, the desert view of justice in wages condemns the current disparity between CEO and employee pay. I did not argue that CEOs do not deserve to make \$8 million per year simpliciter. Perhaps they do. But then employees deserve to make more than \$27,000 per year. If employee pay cannot be drastically increased, then the desert view demands that CEO pay be drastically reduced.

The Utility View

Having seen that neither the agreement view nor the desert view can be used to justify the current level of CEO pay, in this section I will examine the utility view. The recent actions of American Airlines provide a stark example of utility-based reasoning about pay. After a \$1.04 billion loss in the first quarter of 2003, the company's management requested significant concessions in pay from its employee unions. At the same time, its board gave the CEO a \$1.6 million "retention bonus." They did so not to honor a clause in his contract, or to reward him for past performance. Their goal was to convince him to stay. The board believed that, without this bonus, the CEO would leave, and then the company would be even worse off. The utility view generalizes this reasoning. According to it, a just wage is one that maximizes firm wealth by attracting talented workers, retaining them in the face of competing offers, and motivating them to do their best. \$8 million per year is a just wage on this view if and only if it accomplishes these tasks.

The utility view should not be confused with the desert view. The utility view may recommend, as a way of motivating employees, offering bonuses to those who make contributions to the firm. According to one version of the desert view, people's deserts are determined by their contributions. Since both views can recommend rewarding contribution, it may seem that they are not really different. This appearance is misleading. The reason, according to the utility view, productive employees should be rewarded is that doing so will lead to future benefits for the firm. The reason, according to the desert view, productive employees should be rewarded is that they have made contributions to the firm—and that is all. Suppose, for example, that an employee makes a significant contribution to his firm. If giving him a higher salary is not necessary to make him stay, and will not cause him (or anyone else in the firm) to make a future contribution that he (or they) otherwise would not make, then the utility view says he should not be given a higher salary. The firm has nothing to gain by doing so. The desert view, on the other hand, leaves it open that this employee should receive a higher salary, provided his contribution is significant enough.

Note also that while the utility view recommends rewarding successful CEOs, it does not recommend paying them whatever they want. The wealth created by the CEO must be weighed against the cost of his services. Suppose that A and B apply for an open CEO job. Both are talented, but A is more so. Suppose further that A demands \$5 million more in pay than B. The utility view recommends hiring A over B only if A will generate at least \$5 million more in revenue for the firm than B. Otherwise it recommends hiring B. The utility view does not recommend getting the most talented person. It recommends getting the person who creates the most benefit for the lowest cost—the most "bang for the buck."

This helps us to see what a utility-based justification of the current level of CEO pay must look like. It cannot claim merely that offering \$8 million per year will attract, retain,

and motivate a person talented enough to be the CEO. It must claim that \$8 million per year is the most cost-effective wage to offer—that it maximizes firm wealth. When this is understood, many will begin to doubt that a utility-based justification of the current level of CEO pay can be provided. They are right to be skeptical. But utility-based arguments are the ones most often appealed to by boards of directors to justify the pay packages they give to their CEOs. Against this, I will give reason to believe that firm wealth is maximized by paying CEOs less than \$8 million per year. I begin by discussing pay as a tool of attraction and retention. I then consider its role in motivation.

Attraction and Retention

Several of the desert-bases discussed above might be cited as reasons an employer has to pay more, or can pay less, to fill a certain job. The most important of these, it seems to me, are effort, skill, and difficulty (including stress, dangerousness, risk, and unpleasantness). Since, other things equal, employees will choose the easier job over the harder job, employers will have to make other things unequal, by offering higher wages for the harder job. Similarly, employers will have to offer higher wages for jobs that require rare and valuable skills or long periods of training, and for jobs that are comparatively difficult.

The CEO's job has some of these characteristics. It does not require much physical effort, but it requires skill and training, and it is difficult and stressful. The question, of course, is not if the CEO's job has these characteristics, but to what degree it has them. Is the CEO's job so difficult and stressful, and does it require so much skill and training, that offering \$8 million per year is necessary to get talented people to become CEOs? Those convinced by my argument that CEOs do not deserve to be paid 301 times what their employees are paid may think not. But we are now asking a different question: not what people deserve for performing the CEO's job, but what would make them willing to perform it.

The answer, however, is similar. There is no evidence that offering \$8 million per year is necessary to get talented people to become CEOs. Indeed, we have reason to believe that much less will do. Consider the jobs of university presidents and U.S. military generals. They are no less difficult, and require no less skill and training, than the jobs of CEOs. But the wages offered to presidents and generals are many times lower than the wages offered to CEOs. The median compensation of presidents of private research universities is \$385,000; U.S. military generals earn \$143,000 per year. Despite this, there is no shortage of talented university presidents and military generals. The fact that people can be attracted to difficult, specialized, and high-skill managerial jobs that pay "only" several hundred thousand dollars per year suggests that talented people will still want to become CEOs even if they are paid less than \$8 million per year.

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Motivation

Attraction and retention are not the only utility-based reasons for paying employees certain wages. There is also motivation. Employees who are talented and motivated create more wealth for their firms than employees who are only talented. There are three ways paying CEOs \$8 million per year might be thought—mistakenly, I will argue—to maximize firm wealth through motivation.

First, it might motivate the CEO himself. The CEO knows that, if he does not do an excellent job, he will be fired. Since he wants to keep making \$8 million per year, he will work as hard as he can. If CEOs were paid less money, they would work less hard, and firms would be worse off.

In this respect also, pay matters: it motivates people to work hard. It is thus arguable that the CEO who is paid \$8 million per year will work harder than the CEO who is paid \$1 million per year. But this, as we know by now, is not what needs to be shown. What needs to be shown is that the extra amount of hard work put in by the \$8-million-per-year CEO is worth an extra \$7 million. It is unlikely that it is. There is no guarantee that extra hard work will translate into extra revenue, and there is only so hard an executive can work. One might think that an extra \$7 million per year would be worth it if one thought that CEOs would put in very little effort if they were paid only \$1 million per year. But this takes a pessimistic view of CEOs' characters, as if only money—and only a lot of it—could get them to do anything. There is no empirical evidence to support this view. To the contrary, studies show that money is not the only, or even the primary, reason people work hard. Instead of trying to further motivate their CEOs with more money, then, firms would do better to use the extra money to increase revenue in other ways, such as advertising more.

The second motivation-based reason for paying CEOs \$8 million per year is, in effect, a slightly different version of the first. It has been said that CEOs' compensation packages should be structured so that CEOs' and owners' interests are aligned. Owners want the stock price to go up. So CEOs should be paid in a way that makes them want the stock price to go up. This is typically achieved by paying CEOs mostly in restricted stock and stock options. Since, it is assumed, the CEO wants to make more money rather than less, this will give him an incentive to try to make the company's stock price go up. The idea not just to make sure that CEOs do what investors want, but to make sure that they do only what investors want. If the CEO is paid mostly in stock, he has little to gain from pursuing alternative courses of action.

Let us grant, for the sake of argument, that CEOs' interests should be aligned exclusively with investors' interests. Let us also grant that offering CEOs \$5 million per year in restricted stock and stock options accomplishes this. Does this prove that CEOs should be paid \$5 million in stock? It does only if there is no cheaper way of achieving this goal. But there is: monitoring and dismissal. The interests of most employees are aligned with investors' interests this way. Employees are monitored. If they promote interests other than those (ultimately) of the investors, they are dismissed. Would anyone seriously propose, as an alternative to this practice, giving each employee several million dollars in stock options? To be sure, doing so would align their interests with investors' interests. But it is expensive and unnecessary. The same is true of paying CEOs \$5 million in stock. There is no reason to give away so much of the firm's wealth when the CEO can simply be fired for poor performance. Owners could secure the same level of loyalty at a fraction of the price.

We have examined two ways that paying CEOs \$8 million per year might maximize firm wealth through motivation. Both focus on the effects of high pay on the CEO. The third focuses on the effects of high pay on other employees. According to some, a firm's job hierarchy can be seen as a tournament, with the CEO's job as top prize. Many of the firm's employees, they say, want this prize and will work hard to get it. The better the prize is, the harder they will work. If the CEO is paid \$8 million per year, the rest of the employees will work very hard indeed. The consequent increase in productivity will be good for the firm as a whole. Ehrenberg and Bognanno find evidence for this hypothesis in the field of professional golf. They observe that golfers' scores are negatively correlated with potential earnings. The larger the tournament's purse is, and hence the more money the golfers could win, the better they play.

This is perhaps the most plausible of the utility-based attempts to justify the current level of CEO pay. Still, the argument in its present form has several problems. In the first place, not every employee wants to be CEO, no matter how much the job pays. So paying the CEO

\$8 million per year provides an incentive to work hard to only some of the firm's employees. Second, there is evidence that this practice will have unintended negative effects. Since there is only one CEO's job, employees must compete with each other to get it. The more the job pays, the more intense the competition will be. This is problematic, for competition fosters jealousy and hostility, which can hinder communication and cooperation. This will not matter to golfers; they play alone. But employees often work together; a decline in communication and cooperation may lead to a decline in productivity. In support of this, Cowherd and Levine find that pay inequality between workers and managers is negatively correlated with product quality. They explain: "interclass pay equity affects product quality by influencing employee commitment to managerial goals, effort, and cooperation." Thus, while paying CEOs \$8 million per year may increase hard work, it may also increase competition. The benefit of the former may be outweighed by the cost of the latter.

Even if it is not, this does not suffice to prove that CEOs should be paid \$8 million per year. My objection is familiar. That is, while paying CEOs \$8 million per year might be an effective motivational tool, it is likely not a cost-effective one. Above we said that the \$8-million-per-year CEO is likely to be only slightly more productive than the \$1-million-per-year CEO. Similar reasoning suggests that \$8-million-per-year CEO hopefuls are likely to be only slightly more productive than \$1-million-per-year CEO hopefuls. From the point of view of utility, then, firms would do better to use the extra \$7 million to increase revenue in other ways.

Let me clarify the nature of my conclusions. I think I have amply demonstrated my negative claim: there are no good utility-based arguments in favor of the current level of CEO pay. But I put forward a positive claim as well: according to this view of justice in wages, CEOs get paid too much. In light of what we now know about attracting, retaining, and motivating managerial talent, and how important that talent is, we have reason to believe that paying CEOs \$8 million per year does not maximize firm wealth. Talented people could be attracted to the CEO's job, retained in the face of competing offers, and motivated to work hard, with less than \$8 million per year. This part of my argument is less secure. New research could undermine the conclusions upon which I have relied. This would be surprising, but it has not been ruled out.

Conclusion

In the meantime, what should be done? CEO pay should be kept from increasing; ideally, it should decrease. In poorly governed firms, CEOs set their own pay. Even in well governed ones, they can refuse exorbitant pay packages. Thus the most direct way of achieving this goal is to appeal to CEOs themselves. They should be pressured to accept less pay. This may not work, for various reasons. Another tactic is to enact laws which limit CEO pay. Just as minimum wage laws provide a floor for wages, we might create "maximum wage" laws to provide a ceiling for them. This approach will seem heavy-handed to some. There is, however, a middle road. This is to ensure that all firms are better governed with respect to pay.

Determining what such firms will look like is not a matter for a priori reflection. There is a large literature that links characteristics of boards of directors to CEO pay. Drawing on it, I offer the following two suggestions.

First, CEOs should be removed from the director election process. Directors feel obligated to those who put them on the board. If this is the CEO, they will feel obligated to him, and be more inclined to overpay him. Directors should feel obligated to the people they are actually representing: the shareholders. Letting shareholders elect them will help to create this feeling. It is possible that it will also make being a director a more demanding job. It may end the era in which an individual can serve on several corporate boards and

still hold a full time job. This would be a good thing. Being a director is an important job: directors oversee entities whose actions can impact the welfare of thousands of people. It should feel like one.

Second, directors should be required to make meaningful financial investments in the firms which they direct. They need not all own a certain percentage of the firm's total stock. What matters is that they own an amount that is meaningful for them. This promotes the first objective: directors will feel more obligated to shareholders if they are themselves shareholders. It is useful for another reason as well. Above we said that a problem with the pay negotiations between directors and CEOs is that directors feel as if they are not paying with their own money. Making them buy stock would help to ameliorate this problem. An implication of this view is that other kinds of compensation that seem "free" to directors should be eliminated. This includes stock options insofar as they are not counted against firm earnings. If options are given as compensation, they should be expensed.

Implementing these suggestions will, I believe, help to reduce the pay of CEOs. But it will not guarantee that they receive wages that are just. More attention needs to be paid to the fundamental question of what makes a wage just. The subject of wages has received far more attention by economists, organizational theorists, and consultants than by philosophers. This paper has provided a framework for thinking about the moral dimensions of wages. They cannot be ignored.

Source: Copyright © Jeffrey Moriarty. A draft of this paper was presented at Georgetown University. The author wishes to thank members of that audience, and also George Brenkert, Edwin Hartman, Kelly Moriarty, Jeffrey Wilder, and two anonymous *Business Ethics Quarterly* referees for helpful comments and discussion.

1. Editors' note: This essay provides a fine example of philosophical analysis in which the principles and theories of philosophical ethics are applied to an ethical controversy in contemporary business. Students should note that the logical reasoning process developed throughout this essay provides an admirable model of ethical decision making and analysis. What follows is an edited version of a longer essay that appeared in *Business Ethics Quarterly* 15, no. 2, pp. 257–281, and has been reprinted by permission. Notes and references have been deleted.

Reading 3-3

Caux Principles for Business

Introduction

The Caux Round Table believes that the world business community should play an important role in improving economic and social conditions. As a statement of aspirations, this document aims to express a world standard against which business behavior can be measured. We seek to begin a process that identifies shared values, reconciles differing values, and thereby develops a shared perspective on business behavior acceptable to and honored by all.

These principles are rooted in two basic ethical ideals: *kyosei* and human dignity. The Japanese concept of *kyosei* means living and working together for the common good, enabling cooperation and mutual prosperity to coexist with healthy and fair competition. "Human dignity" refers to the sacredness or value of each person as an end, not simply as a means to the fulfillment of others' purposes or even majority prescription.

The General Principles in Section 2 seek to clarify the spirit of *kyosei* and “human dignity,” while the specific Stakeholder Principles in Section 3 are concerned with their practical application.

In its language and form, the document owes a substantial debt to The Minnesota Principles, a statement of business behavior developed by the Minnesota Center for Corporate Responsibility. The Center hosted and chaired the drafting committee, which included Japanese, European, and United States representatives.

Business behavior can affect relationships among nations and the prosperity and well-being of us all. Business is often the first contact between nations and, by the way in which it causes social and economic changes, has a significant impact on the level of fear or confidence felt by people worldwide. Members of the Caux Round Table place their first emphasis on putting one’s own house in order, and on seeking to establish what is right rather than who is right.

Section 1. Preamble

The mobility of employment, capital, products and technology is making business increasingly global in its transactions and its effects.

Law and market forces are necessary but insufficient guides for conduct.

Responsibility for the policies and actions of business and respect for the dignity and interests of its stakeholders are fundamental.

Shared values, including a commitment to shared prosperity, are as important for a global community as for communities of smaller scale.

For these reasons, and because business can be a powerful agent of positive social change, we offer the following principles as a foundation for dialogue and action by business leaders in search of business responsibility. In so doing, we affirm the necessity for moral values in business decision making. Without them, stable business relationships and a sustainable world community are impossible.

Section 2. General Principles

Principle 1. The Responsibilities of Businesses: *Beyond Shareholders toward Stakeholders*

The value of a business to society is the wealth and employment it creates and the marketable products and services it provides to consumers at a reasonable price commensurate with quality. To create such value, a business must maintain its own economic health and viability, but survival is not a sufficient goal. Businesses have a role to play in improving the lives of all their customers, employees, and shareholders by sharing with them the wealth they have created. Suppliers and competitors as well should expect businesses to honor their obligations in a spirit of honesty and fairness. As responsible citizens of the local, national, regional and global communities in which they operate, businesses share a part in shaping the future of those communities.

Principle 2. The Economic and Social Impact of Business: *Toward Innovation, Justice and World Community*

Businesses established in foreign countries to develop, produce or sell should also contribute to the social advancement of those countries by creating productive employment and

helping to raise the purchasing power of their citizens. Businesses also should contribute to human rights, education, welfare, and vitalization of the countries in which they operate.

Businesses should contribute to economic and social development not only in the countries in which they operate, but also in the world community at large, through effective and prudent use of resources, free and fair competition, and emphasis upon innovation in technology, production methods, marketing and communications.

Principle 3. Business Behavior: *Beyond the Letter of Law toward a Spirit of Trust*

While accepting the legitimacy of trade secrets, businesses should recognize that sincerity, candor, truthfulness, the keeping of promises, and transparency contribute not only to their own credibility and stability but also to the smoothness and efficiency of business transactions, particularly on the international level.

Principle 4. Respect for Rules

To avoid trade frictions and to promote freer trade, equal conditions for competition, and fair and equitable treatment for all participants, businesses should respect international and domestic rules. In addition, they should recognize that some behavior, although legal, may still have adverse consequences.

Principle 5. Support for Multilateral Trade

Businesses should support the multilateral trade systems of the GATT/World Trade Organization and similar international agreements. They should cooperate in efforts to promote the progressive and judicious liberalization of trade and to relax those domestic measures that unreasonably hinder global commerce, while giving due respect to national policy objectives.

Principle 6. Respect for the Environment

A business should protect and, where possible, improve the environment, promote sustainable development, and prevent the wasteful use of natural resources.

Principle 7. Avoidance of Illicit Operations

A business should not participate in or condone bribery, money laundering, or other corrupt practices: indeed, it should seek cooperation with others to eliminate them. It should not trade in arms or other materials used for terrorist activities, drug traffic or other organized crime.

Section 3. Stakeholder Principles

Customers

We believe in treating all customers with dignity, irrespective of whether they purchase our products and services directly from us or otherwise acquire them in the market. We therefore have a responsibility to:

- provide our customers with the highest quality products and services consistent with their requirements;
- treat our customers fairly in all aspects of our business transactions, including a high level of service and remedies for their dissatisfaction;

- make every effort to ensure that the health and safety of our customers, as well as the quality of their environment, will be sustained or enhanced by our products and services;
- assure respect for human dignity in products offered, marketing, and advertising; and respect the integrity of the culture of our customers.

Employees

We believe in the dignity of every employee and in taking employee interests seriously. We therefore have a responsibility to:

- provide jobs and compensation that improve workers' living conditions;
- provide working conditions that respect each employee's health and dignity;
- be honest in communications with employees and open in sharing information, limited only by legal and competitive constraints;
- listen to and, where possible, act on employee suggestions, ideas, requests and complaints;
- engage in good faith negotiations when conflict arises;
- avoid discriminatory practices and guarantee equal treatment and opportunity in areas such as gender, age, race, and religion;
- promote in the business itself the employment of differently abled people in places of work where they can be genuinely useful;
- protect employees from avoidable injury and illness in the workplace;
- encourage and assist employees in developing relevant and transferable skills and knowledge; and
- be sensitive to the serious unemployment problems frequently associated with business decisions, and work with governments, employee groups, other agencies and each other in addressing these dislocations.

Owners / Investors

We believe in honoring the trust our investors place in us. We therefore have a responsibility to:

- apply professional and diligent management in order to secure a fair and competitive return on our owners' investment;
- disclose relevant information to owners/investors subject to legal requirements and competitive constraints;
- conserve, protect, and increase the owners/investors' assets; and
- respect owners/investors' requests, suggestions, complaints, and formal resolutions.

Suppliers

Our relationship with suppliers and subcontractors must be based on mutual respect. We therefore have a responsibility to:

- seek fairness and truthfulness in all our activities, including pricing, licensing, and rights to sell;
- ensure that our business activities are free from coercion and unnecessary litigation;

- foster long-term stability in the supplier relationship in return for value, quality, competitiveness and reliability;
- share information with suppliers and integrate them into our planning processes;
- pay suppliers on time and in accordance with agreed terms of trade; and
- seek, encourage and prefer suppliers and subcontractors whose employment practices respect human dignity.

Competitors

We believe that fair economic competition is one of the basic requirements for increasing the wealth of nations and ultimately for making possible the just distribution of goods and services. We therefore have a responsibility to:

- foster open markets for trade and investment;
- promote competitive behavior that is socially and environmentally beneficial and demonstrates mutual respect among competitors;
- refrain from either seeking or participating in questionable payments or favors to secure competitive advantages;
- respect both tangible and intellectual property rights; and
- refuse to acquire commercial information by dishonest or unethical means, such as industrial espionage.

Communities

We believe that as global corporate citizens we can contribute to such forces of reform and human rights as are at work in the communities in which we operate. We therefore have a responsibility in those communities to:

- respect human rights and democratic institutions, and promote them wherever practicable;
- recognize government's legitimate obligation to the society at large and support public policies and practices that promote human development through harmonious relations between business and other segments of society;
- collaborate with those forces in the community dedicated to raising standards of health, education, workplace safety and economic well-being;
- promote and stimulate sustainable development and play a leading role in preserving and enhancing the physical environment and conserving the earth's resources;
- support peace, security, diversity and social integration;
- respect the integrity of local cultures; and
- be a good corporate citizen through charitable donations, educational and cultural contributions, and employee participation in community and civic affairs.

Source: www.cauxroundtable.org.