CAMBRIDGE

Cambridge University Press
978-0-521-86379-7 - Ethics and Business: An Introduction
Kevin Gibson
Excerpt
More information

1 An overview of business ethics

The Bhopal disaster

While most of the population slept during the night of December 3, 1984, a toxic cloud of over forty tons of methyl isocyanate (MIC) gas escaped from the Union Carbide plant in Bhopal, central India. Heavier than air, the gas blanketed the slums surrounding the facility and spread over the city of 800,000 people. At least 2,000 died immediately, although local estimates run into the tens of thousands.

Over twenty years later, there is still an arrest warrant out in India for Warren Anderson, the CEO of Union Carbide at the time, on a charge of culpable manslaughter. The plant, long defunct, has polluted the local aquifers with carcinogens and exposed open puddles of toxic waste. Local municipal workers tend to the area without any protective gear. Medical reports indicate that residents have compromised immune systems, growth retardation, miscarriage rates seven times the national average, and widespread incidence of cancer. Up to half a million people are said to be debilitated by chronic illness.[1]

[1] Drawn from: Randeep Ramesh, "Bhopal Still Suffering," *The Guardian* (UK) (November 29, 2004), available at www.guardian.co.uk/india/story/0,12559,1361575,00.html; Edward Broughton, "The Bhopal Disaster and Its Aftermath: A Review," *Environmental Health: A Global Access Science Source*, available at http://ehjournal.net/content/4/1/6, accessed January 20, 2006; "The Bhopal Disaster," Bhopal Municipal Corporation, available at http://bhopalmunicipal.com/disaster.htm, accessed January 25, 2006; Material available at www.dow.com, accessed January 25, 2006; Dinesh C. Sharma, "Bhopal: 20 Years On," *The Lancet*, 365 (2005), p. 111; Keerthi Reddy, "India: Dumping Ground of the Millennium?" *Vaishnava News* (January 31, 2001), available at http://www.vnn.org/editorials/ET0101/ET31-6533.html, accessed January 26, 2006; Gerd Leipold, "Trading in Poison," *The Telegraph* (Calcutta) (December 14, 2005).

© in this web service Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-0-521-86379-7 - Ethics and Business: An Introduction
Kevin Gibson
Excerpt
More information

A decade before the disaster, India had actively solicited investment by foreign companies and formed a joint venture with Union Carbide (UCC) to build a plant producing Sevrin, a common pesticide. However, by the early 1980s the Bhopal facility was operating at one-quarter of its capacity, due to poor harvests and reduction in the capital available to farmers. In 1982 a visiting UCC team declared the factory unsafe. By July 1984 the plant was up for sale, and UCC was planning to dismantle some components for shipment elsewhere. However, despite cutbacks and warnings, the plant continued to operate.

Union Carbide maintains that the spill was due to deliberate sabotage. Other independent investigations have pointed to poor maintenance and lax safety controls that led to water mixing with the volatile MIC. In 1991 the government of India negotiated a deal with UCC on behalf of the victims, which stipulated that legal jurisdiction was restricted to Indian courts. UCC paid $470 million in compensation and accepted moral responsibility. In return, all pending legal action against the company was dropped. When Anderson failed to answer the personal charges against him, the regional courts seized UCC's assets, including the now defunct and polluted plant. UCC (now part of Dow Chemical) insists that all the claims arising from the gas release were acquitted by the settlement and denies any enduring responsibility, maintaining that the regional government has now taken control of the situation.

In recent years, India's economy has steadily grown at about 8 percent a year, in part spurred by World Trade Organization rulings since 2000 encouraging foreign investment. Some commentators link the rapid growth and industrialization with poor environmental practices, dumping of pollutants, and risks to public health. These observers sense that business practices in developing countries may create conditions that would allow another disaster on the scale of Bhopal.

The philosophical contribution

The Bhopal case typifies the complexity, mixed motives, and potential for benefit or harm characteristic of contemporary business activity. Merely reciting the facts or reviewing the legal decisions will fail to tell us what values have priority and how we might approach difficult issues. In the face of the intricacy of the various strands of thinking, it is critical that we can

© in this web service Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-0-521-86379-7 - Ethics and Business: An Introduction
Kevin Gibson
Excerpt
More information

step back and work out a *normative* response, that is, what we *should* do. Philosophical inquiry is vital to any considered discussion since it can help us understand the nature of business and arrive at moral judgments.

Philosophy – literally, the love of wisdom – is hard to pin down as an academic activity. It embraces fundamental and abstract questions about human nature and our relationships, the existence of God, the meaning of language, and how we establish and implement our values. However, at the most basic level, philosophy has two primary functions:

- The examination of concepts
- The study of arguments.

At first glance, these may not seem to be highly significant activities, and yet they underlie all human behavior. We literally shape our lives by the way we organize our world – by the way we create the conceptual framework we use to make sense of things and by the values we embrace. For example, many people throughout the ages have laid down their lives for the sake of glory or liberty or have demanded rights of independence and sovereignty, and yet we rarely step back to examine exactly what these words signify. Thus it is worthwhile to spend time examining the meanings of these very basic concepts and how they apply to our lives.

This is especially true when we observe these concepts applied in business and the workplace. Most of the Western world operates under a capitalist economic system based on fundamental assumptions – assumptions that are often taken for granted, say, about the benefits of economic growth, or what constitutes a fair return on investment, or who should be responsible for harms that result from faulty products. The consequences of these assumptions are momentous for our quality of life. Furthermore, many of us will spend the majority of our adult lives in a work setting, usually employed by an institution or someone else, and we will inevitably be affected by baseline moral assumptions about justice and fairness, for example, in such issues as working conditions, terms of employment, privacy, assumption of risk, and concerns about health and safety.

In the Bhopal case, the Indian government had made value-laden decisions about the desirability of foreign investment, and Union Carbide was looking to realize a profit for its shareholders. The company's actions reveal certain assumptions about safety and the environment, at least in the Indian context, because UCC appears to have applied less stringent safety standards

© in this web service Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-0-521-86379-7 - Ethics and Business: An Introduction
Kevin Gibson
Excerpt
More information

than at their American plants. Therefore it will be valuable at the outset to seriously examine the conceptual foundations underlying business and how they are put into practice.

The second major task of philosophers is to look at arguments. In the technical sense used by philosophers, arguments are a linked series of statements that force a conclusion. They can go wrong in a couple of important ways: either the statements themselves may be faulty, or the links may not connect as claimed. Analysis of this kind is critical because we often decide what to do based on a set of claims and what they purportedly conclude. So, for example, Dow Chemical claims that it has fulfilled its obligations to victims because the Indian government approved its legal settlement. A philosopher might examine whether paying a fine does, in fact, discharge one's duties of reparation.

In another common case, a business may lay off workers without notice because it believes that employees who know they will soon be out of a job will slack off and lower the morale of the firm. However, we might question the empirical claims involved and whether they will have the result management suspects. We are often misled by clever rhetoric or invalid arguments, and one of the philosopher's tasks is to sort out sound reasoning about any particular claim. In this case, the employer is making a causal claim about human behavior and comes to a conclusion primarily based on the effect on company efficiency. That is, a slacking worker will lower profitability, and profitability is the thing that matters most. But if we analyze the employer's argument closely we may see that it is not as obvious or compelling as it initially seems. For instance, we could empirically examine the premise that knowledge of the impending layoff will hurt productivity, or we might accept this premise yet still disagree with the employer's conclusion that it is right to keep employees in the dark. Perhaps there are moral reasons to treat people decently that are independent of the bottom line. If layoffs are imminent, perhaps it might be appropriate to give employees some time to adjust and make plans rather than escorting them to the door on a Friday afternoon. Thus we need to look carefully at both the assumptions at work in an argument and at the way these assumptions are linked to come to a conclusion.

One common way to critically assess an argument is to look for counterexamples that refute the claims being made. Thus, if it turns out that there are a number of cases where businesses have given notice of impending layoffs and found that the employees still worked diligently, that would

© in this web service Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-0-521-86379-7 - Ethics and Business: An Introduction
Kevin Gibson
Excerpt
More information

speak against the assumptions implicit in the claim that the best way to deal with layoffs is not to give notice. We might contrast the Bhopal case with one where a company has undertaken to do whatever is necessary to remedy harms that its actions initiated, whether or not there have been intervening independent causes.

Another method of assessment is to abstract the principles at work and then see if they apply in other settings. For example, take the claim that a firm is responsible for any and all consequences arising from the use of its products. While this might be appropriate in, say, the case of damage resulting from exposure to toxic chemicals, the principle may not hold quite as well in cases such as obesity resulting from habitual consumption of fast food. Philosophers find it useful to examine the differences between cases and their underlying principles to determine the significant distinction – here it probably centers on the acceptance of risk by the individual consumer – and then see if the distinction has value in different contexts as well.

Philosophy differs from disciplines such as economics or sociology. In these disciplines, scholars study how people actually behave, and they produce *descriptive* reports. Thus an economist may examine the nature of economic growth in central India and balance the wealth created against the costs incurred. However, this is a neutral endeavor until policymakers make the further value-laden claim that, for example, growth *ought* to be permitted as long as the benefits outweigh the costs. Similarly, it may turn out that a quarter of all students in MBA programs admit cheating at some point in their academic career. Importantly, this tells us nothing about what the students *should* do. The very fact that many students cheat is instructive, yet we have to recognize the gap between a factual statement – one that can be verified – and the value claim that cheating is wrong. Economists and sociologists report behavior but do not suggest that because a lot of people act in a given way that it is therefore right. Thus, if we read a news report telling us that a third of all businesses in Australia routinely use illegal pirated software, we have purely descriptive information. The report does not automatically carry the ethical implication that pirating is wrong and should stop.[2] Disciplines such as economics are explicitly non-normative in that they make certain presumptions about human behavior – such as the

[2] Jim Macnamara, "It's Official – One Third of Business Software Stolen," Business Software Association of Australia news release (May 22, 2001).

© in this web service Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-0-521-86379-7 - Ethics and Business: An Introduction
Kevin Gibson
Excerpt
More information

desire to increase personal welfare – but do not take moral positions about them or their consequences. To bridge the "fact/value" divide, we need to adopt a prescriptive moral framework – one that explicitly tells us how we ought to behave.

Within philosophy there are numerous subdisciplines. Broadly speaking, ethics is the branch that discusses issues of morality. Morality deals with notions of good and bad, justice, fairness, right and wrong, and the way we develop and apply our values. Metaethics is concerned with the various theories that promote ideas of what constitutes the good. Another area, normative ethics, applies standards or norms and reaches conclusions about what we ought to do. Business ethics is the area within normative ethics that is concerned with the special moral issues and concerns that arise in business. These issues may be expansive, such as whether there should be any restraint on economic globalization, or specific, such as considering how a firm should deal with a dangerous plant, defective product, or an injured worker.

Two meanings of business ethics

The term *business ethics* is ambiguous. It has at least two different meanings, with significantly different implications depending on its use. The first meaning of business ethics is in describing the rules of a game or practices in a limited domain. In sports or competitive games, players know which behavior is acceptable. It may be fair to bluff or lie to win in poker but wrong to mark the cards or use a confederate. This sense of the term is sometimes used to describe, say, the ethics of the gang, where shooting rivals is acceptable but ratting out someone to the police is not. When we use the term *ethics* like this to delineate a set of activities within a certain domain, it need not refer to behavior that is decent or moral.

This first use of the term *business ethics* appeals to people who have a strong sense of role morality, where individuals take on the behavior of the office that they hold rather than relying on their personal judgment. By this way of thinking, it would be appropriate for a professional to ask a client whether he should respond to a question as a friend or as an accountant, with the idea that different standards apply depending on the function that a person undertakes. When managers reporting to NASA were deliberating whether to ask for a postponement before what turned out to be a fateful launch of the space shuttle *Challenger*, the chair of the meeting literally said,

© in this web service Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-0-521-86379-7 - Ethics and Business: An Introduction
Kevin Gibson
Excerpt
More information

"Take off your engineering hat and put on your management hat."[3] The hats symbolize the various roles people take on in different situations.

Therefore, if the name of the game in business were just maximizing profit, this approach would allow a businessperson to act as if business were an amoral game where success is measured in financial terms alone. Part of the game, like not hiding cards up your sleeve, is that the threshold of acceptable behavior is complying with the law; beyond that, any artifice or brinksmanship that brings in more profit is not only appropriate but encouraged. Often those who hold this point of view will make claims to the effect that they have done nothing illegal, or they have paid the levied penalty, and therefore they have done nothing wrong.

The second understanding of business ethics makes no distinction among the different roles in our lives and in fact rejects the notion that we can divide our moral lives into discrete sections labeled "home," "family," "business," "romance," and so on, each with its distinct set of rules. Instead, this view proposes that we have a single set of standards that apply throughout our lives. The difference is that business presents us with new and different situations that require specialized assessment. Thus, relationships between producer and consumer may involve a set of considerations that do not apply to interactions between two people without the element of commercial interest, and questions of how to treat employees during a downsizing require special analysis. Nevertheless, the baseline of moral decency would be consistent throughout, and the same moral principles of justice, fairness, goodness, and what is right would hold in business as they do in our everyday dealings. By this light, the legal and ethical spheres may overlap, but we gauge correct action by personal morality rather than by reference to a legal code. Typical maxims of a manager who adopts this approach might be stated as questions such as "Would I be prepared to have my actions printed on the front page of the newspaper?" or "Would I think it acceptable if others treated me the way I treat them?"

Instrumental or prudential approaches

We can also think about morality in terms of intrinsic and instrumental motivation. Those holding intrinsic views believe good should be done for

[3] Diane Vaughn, *The Challenger Launch Decision* (Chicago: University of Chicago Press, 1996).

© in this web service Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-0-521-86379-7 - Ethics and Business: An Introduction
Kevin Gibson
Excerpt
More information

its own sake, whereas instrumentalists would look for some form of payoff. Take the case of a company facing an opportunity to make a significant profit by lying in a negotiation. In broad terms, the company officials could decide to be honest because it is intrinsically wrong to lie, that is, they are faced with a choice about doing what they perceive as right or wrong, and irrespective of the consequences they decide not to exploit the advantage. On the other hand, instrumentalists would examine the situation to see what course of action is most economically beneficial. Again, the answer might be not to lie. Although lying would provide an immediate reward, there may be greater economic payoffs in the long run from acting honestly and benefiting from their enhanced reputation in the marketplace. On the web-based auction house eBay, research has found that sellers with excellent customer feedback are likely to sell their items for over 10 percent more than those with less positive responses.[4] The technical term used for following the moral path because of an anticipated reward is *prudence*.

The moral motivation involved here is that there has to be a reward (or, conversely, avoidance of distress). Essentially, instrumental approaches are self-interested, since they are concerned mainly with personal benefit. The benefits need not be immediate. For example, a company might invest in a poor community because it believes that doing so will mean that it will have an educated pool of workers in the future or because workers will be less inclined to change jobs if they enjoy the local amenities. Similarly, individuals may donate blood although they do not perceive any immediate personal benefit. Rather, they may see that this behavior enhances everyone's welfare, and they are better off in a community where there is an attitude of common concern. Actions that have a general benefit, although ultimately motivated by personal well-being, are described as *benign self-interest*. Take the case of a car repair firm: it may benefit in the short run by inflating the amount of work that needs to be done, but as with many firms it will retain its customers based on its credibility, and if that is lost the repair shop will have nothing to fall back on. Hence if customers start to question their bills, they are less likely to return, and the company will falter. Hence a prudential company might adopt the attitude that it makes economic sense in the long run to build a reputation for fair dealing and trust.

[4] Catherine Dupree, "Integrity Has Its Price," *Harvard Magazine* (July–August, 2003), http://www.harvardmag.com/on-line/070378.html, accessed June 11, 2006.

© in this web service Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-0-521-86379-7 - Ethics and Business: An Introduction
Kevin Gibson
Excerpt
More information

In another case, a firm sponsors a charity run to benefit sick children. The firm prominently displays its logo on the start and finish lines and prints its logo on the event T-shirt. The company is allocating resources to the charity, which may result in increased sales, but the effects need not be immediate or obvious. Moreover, there is some element of advertising in their sponsorship, and some critics might say that their actions are tainted merely because they involve some payoff (the same might be said if their donation were tax deductible). Others would admit that private firms in a capitalist society are often motivated by prudential concerns but focus instead on whether total welfare has been increased.

The rewards for prudential actions may not come soon or be measured easily, but that may not matter as long as the person involved believes in the reward system. Hence a faithful believer might resist temptation and do charitable works because of a promise of eternal salvation, even though there is no evidence that will occur; as a practical matter the evidence is secondary to the individual's belief. We might say business dealings are analogous, because despite the difficulty in proving that a business will benefit by doing good works, it may become self-verifying if everyone involved in commerce adopts the belief as a matter of course.

There is some anecdotal evidence that firms that act morally do better in the marketplace. As we have seen with reputation effects, the payoff might not be immediate, and so these things have to be looked at in the long term. Still, the evidence is not robust and tends to reflect the empirical difficulties firms have in finding out whether advertising is effective. For instance, it is hard to know if any single given action translates directly into individual purchasing decisions. We may choose to go to one department store over another because it offers scholarships to needy students, but the store may also have the quality and range of goods we prefer, among a constellation of other factors, and so it is hard to isolate corporate moral actions sufficiently to draw definitive conclusions.

A further confound is that companies that do a lot of good works and do well in the market – such as Johnson & Johnson, Merck, or Dayton-Hudson – tend to be well established, stable, and profitable anyway. This is not to deny that firms that act morally may do well in the marketplace, especially over time. However, it is not automatically true, and the empirical evidence is mixed, at best. The result is that we cannot firmly establish the claim that corporations benefit from ethical action. Nevertheless, acting well may still

© in this web service Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-0-521-86379-7 - Ethics and Business: An Introduction
Kevin Gibson
Excerpt
More information

be a prudential strategy. Moreover, there may be very strong reasons to do the right thing intrinsically regardless of its instrumental effect on the bottom line.

Rule-based approaches

An alternative view, often associated with the economist Milton Friedman, is that following the law fulfills the moral requirements of business. The rationale suggests that business is out to make a profit, and it should do whatever it can to maximize returns. This may mean causing pollution or bribing officials along the way. However, the moral yardstick involved is the appropriate law, and the firm will not do anything illegal. Suppose a manager is concerned about the declining population of songbirds near her business. By this view, she should work to maximize profits while at work and pollute up to the legal limit if that will enhance the bottom line, even if it jeopardizes the birds. The check and balance is that she can take her wages and do whatever she wants with them: if she chooses to support a wildlife organization that then mobilizes the political process to change the law, she is welcome to do so. At the point the law changes, so does the firm's obligation to the environment. But it is not her place to unilaterally make the decision to preserve more birds and lessen emissions if it will hurt the company, since her primary allegiance should be to the shareholders who own the firm and are looking to maximize their returns.

By this reasoning, the company may still voluntarily reduce pollution or do other good works that are over and above the law, but the acid test is profitability. If there is a benefit through improved public relations or avoiding a costly lawsuit, then the company will have an incentive to act beyond the legal minimum. However, absent any financial incentive, the company will rely on legal compliance as its ethical guide.

This view has some difficulties. Imagine a competitive world where everyone relied on the law as their gauge of appropriate behavior. In every transaction we would believe that the other party was predatory, and our only defense would be a close reading of settled law. It means that society would be deluged by lawmakers, regulators, and compliance officers, and a court system to adjudicate and punish. This shows us that although we may feel that sharp dealing is commonplace, in fact most of our business dealings are done against a backdrop of trust.

© in this web service Cambridge University Press www.cambridge.org