

Making Ethical Decisions

John Hooker

*Tepper School of Business
Carnegie Mellon University*

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Outline

- Why ethics?
- Myths and misconceptions
- Three tests for an ethical decision
 - Generalization test
 - Utilitarian test
 - Respect for autonomy
- Case study

This is a crash course

- For more:
 - Check out my **online course**. Google “Youtube business ethics course”
 - See my blog **ethicaldecisions.net** – rational analysis of ethical dilemmas.



Why ethics?

- Ethics doesn't **judge** us.
 - It doesn't decide whether we are good or bad people.



Why ethics?

- Ethics is a **negotiation tool**.
 - It is a framework for agreeing how we are going to live and work together.



Why ethics?

- The job of ethics is to reach **rational consensus** on how we should relate to each other.
 - We have to agree on the ground rules.



Why ethics?

- We often think that **law enforcement** makes society work, and ethics is something **extra**.



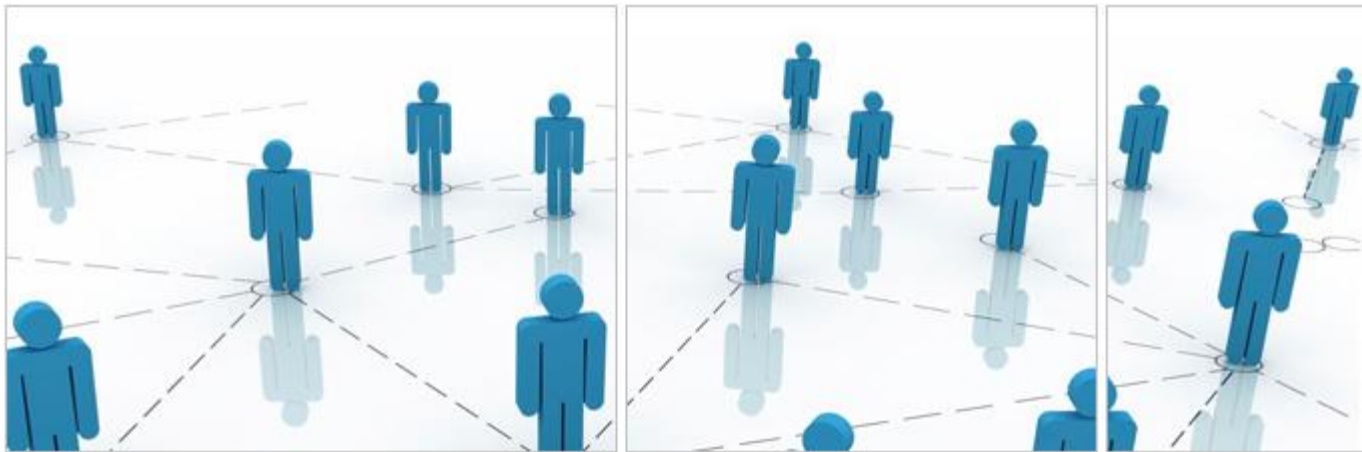
Why ethics?

- We often think that **law enforcement** makes society work, and ethics is something **extra**.
- Law enforcement is **impossible** without ethics.
 - Compliance is mainly **voluntary**.
 - Law enforcement takes care of a few who don't get the message.



Why ethics?

- Ethics provides **social infrastructure** that is necessary for business – and civilization.



Myths and Misconceptions

Myths and misconceptions

- **Myth 1:** We learn ethics as little kids, not as adults.

Myths and misconceptions

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- **Wrong:** Ethical maturity grows with cognitive and social maturity.
 - Lifelong process.



Myths and misconceptions

- Lawrence Kohlberg's developmental stages
 - He identified **6 stages** of moral development.
 - Ethical reasoning skills improve in later stages.
 - Final stage reached only in the 60s, if at all.



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 - He identified **6 stages** of moral development.
 - Ethical reasoning skills improve in later stages.
 - Final stage reached only in the 60s, if at all.
- Successful leaders tend to be more sophisticated in ethical reasoning.



Myths and misconceptions

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Myths and misconceptions

- **Myth 2:** We all know what's right. It's just a matter of doing it.
- **Then why do we disagree all the time?**



Myths and misconceptions

- **Myth 3:** Ethics is simple.
 - Just don't do anything you wouldn't want to appear on the front page of the *Wall Street Journal*.
 - ...or you wouldn't want your mother to know about, etc.



Myths and misconceptions

- **Wrong**

- Suppose you lay off 1000 workers, destroying a community.
- You wouldn't want this on the **back page** of the *WSJ*.
- Your mother wouldn't like it, either.
- But maybe the alternatives are even **worse**.



Myths and misconceptions

- **False impression**

- Media coverage of business scandals often portrays an **obvious choice** between good and evil.
- Real, everyday dilemmas are **messy and complicated**, often requiring tradeoffs.
- Even dilemmas that seem clear-cut **in retrospect** are often murky at the time.



Myths and misconceptions

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Myths and misconceptions

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 - There are no objective standards.
 - Only **personal values**.
- Try to remember this the next time you are **mugged**.



Myths and misconceptions

- Ethics is not about personal values.
 - It's about **interpersonal** values.
 - The whole point of ethics is to reach **rational consensus**.
 - Ethics can't do its job if it's purely personal.



Myths and misconceptions

- Ethical issues can be analyzed.
 - We will present **three tests** for an ethical choice.



Myths and misconceptions

- **Myth 5:** Business ethics is all about fiduciary duty to stockholders.



Myths and misconceptions

- **Wrong**
 - Suppose you run your own business.
 - Does this mean there is no business ethics?



Myths and misconceptions

- **Fiduciary duty**
 - True, it's an important part of business.
 - Based on **agency agreement** between owners and directors/executives.



Myths and misconceptions

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 - What are the ethical duties of the **owners**?
- If a decision is **ethical** for the owners...
 - Fine, go with it.
- If a decision is **unethical** for the owners...
 - Fiduciaries have no obligation to carry it out on their behalf.

Tests for an ethical decision

- Generalization test.
- Utilitarian test.
- Respect for autonomy.

Generalization test

- Premise 1: we always act for a **reason**.
 - Every action has a rationale.

Generalization test

- Premise 1: we always act for a **reason**.
 - Every action has a rationale.

- Premise 2: reasons are reasons.
 - if they justify an action for **me**, they justify it for **anyone** to whom the reasons apply.

Generalization test

- Example: I walk into a store and decide to steal a watch.
- What are my reasons?
 - I would like to have a new watch.
 - I won't get caught.
 - No one is watching.
 - There are no surveillance cameras.
 - There is no security system at the door.



Generalization test

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Generalization test

- I am deciding that anyone who has these reasons should steal a watch.
 - Otherwise they aren't reasons after all.
- But if people do this, the reasons will no longer apply.
 - The store will tighten security, and people will get caught.

Generalization test

- So I am inconsistent.
 - My reasons justify **my** stealing watch.
 - But they don't justify **others** stealing a watch.
 - I can't have it both ways.
- **Generalization test:**
 - The reasons for my action should be consistent with the assumption that everyone with the same reason acts the same way.

Utilitarian test

- Premise: An action is a means to an end.
 - You want to achieve some goal or state of affairs.
- For example
 - Happiness is my ultimate goal.
 - Then I believe happiness is good.
 - To be consistent, I should choose actions that make others happy.
 - **Why?**

Utilitarian test

- Let's ask: Why is it wrong to cause others **pain**?
 - Except to avoid greater pain in the future.
- Because I regard pain as **bad**.
 - But if pain is bad, no one should suffer it.
- The same argument applies to happiness.

Utilitarian test

- Let's call my ultimate goal **utility**.
 - I should want to **maximize utility** because I regard it as good.
- **Utilitarian test.**
 - I should choose an action that, as far as I know, will create as much net expected utility for everyone affected as any other available action.

Utilitarian test

- Example
 - A mutual fund manager has a choice:
 - Invest in **tobacco** or **pharmaceuticals**.
 - Both earn equally good returns.
 - Only the pharmaceuticals pass the **utilitarian test**.



Utilitarian test

- How about stealing the watch?
 - It could result in **greater utility** than not stealing it!
 - But theft violates the **generalization test**.
 - When maximizing utility, consider only actions that are **ethical in other respects**.



Respect for autonomy

- **Autonomy** is self-determination.
 - Freedom to make your own choices, so long as they are ethical.
- Respect for autonomy
 - Don't interfere with the freely chosen, **ethical** choices of others.
 - Unless they give express or implied consent.

Respect for autonomy

- Some cases of coercion
 - Murder, physical harm, slavery – **Violation** of autonomy. No implied consent.
 - Pull someone from path of a moving car – **No violation** of autonomy. There is implied consent.

Respect for autonomy

- Other examples
 - **Transfers or layoffs** – Generally no violation of autonomy. There is implied consent. One “signs on” to this possibility when taking a job.
 - **Sexual harassment** – Violation of autonomy. No implied consent. No one “signs on” to this possibility.

Case study

- Misleading numbers
 - Experienced by an MBA student.
 - For many other cases, see **ethicaldecisions.net**



Case study

- Synopsis
 - Tom (fictitious name) was a newly hired investment advisor at a bank.
 - Tom's boss asked him to describe performance of the bank's own investment products in a brochure for customers.
 - The boss asked Tom to **omit one fund that was performing poorly.**
 - Request made in private, no email, no paper trail.
 - Boss argues that this is part of their fiduciary duty to stockholders.

Case study

- Issue 1 – Is the boss’s request ethical?
 - This is the easy part.
- Issue 2 – If it’s not ethical, what should Tom do?
 - This is much harder.



Case study

- Issue 1 – Is the boss’s request ethical?
 - Not generalizable.
 - Reason for action: Induce customers to believe there is no bad news.
 - If banks always left out the bad news, they would have no credibility with customers.
 - Fiduciary duty? First ask what is ethical for the stockholders.

Case study

- Issue 1 – Is the boss’s request ethical?
 - Utilitarian? Probably fails this test, too, once all affected parties are considered.
 - Violation of autonomy? Yes. Tom signed on to advise customers, not to mislead them.

Case study

- Issue 2 – What should Tom do?
 - Utilitarian: try to reason with the boss, reach a compromise.
 - Failing this, very hard to call, so utilitarian test is a wash.
 - Generalization test: There is now an additional reason for misleading customers: avoid risking your job.

Case study

- Issue 2 – What should Tom do?
 - Generalizable? Suppose employees always caved in to requests to deceive customers.
 - Too many bosses would be tempted to rely on this, resulting in loss of company credibility, and Tom wouldn't have a job to protect.
 - In general, an ethical business climate rests partly on employee reluctance to compromise...
 - ...as well as on ethical leadership from the top.

Case study

- Issue 2 – What should Tom do?
 - But the real world is messy.
 - Suppose Tom’s young daughter has a chronic illness with heavy medical expenses.
 - Following boss’s orders in this case may be generalizable (as well as utilitarian), because it is already generalized.
 - This doesn’t mean the boss’s conduct is ethical, of course.