

# Business Ethics Tutorial

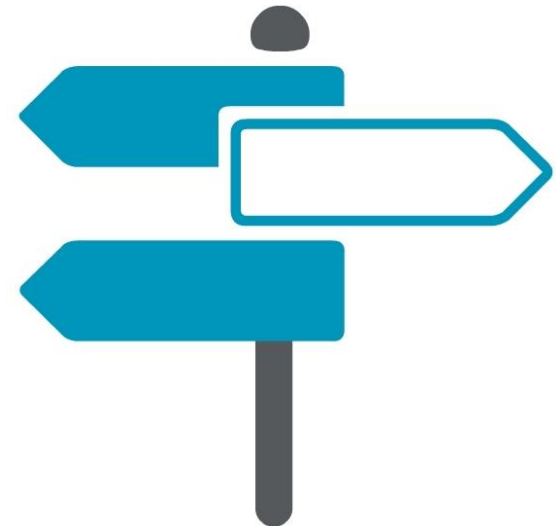
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Carnegie Mellon University*

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# What to expect

- Tools for analyzing an ethical issue.
  - Ethics as a form of rational decision making
  - Three conditions for a rational choice
  - Rational  $\neq$  rational self-interest
- Practice, practice, practice
  - Examples
  - Business case studies



## What to expect

- **Session 1.** Why ethics?
- **Session 2.** Rational choice, Part I.
- **Session 3.** Rational choice, Part II.
- **Session 4.** Examples.
- **Session 5.** Business case studies, Part I.
- **Session 6.** Business case studies, Part II.

# Session 1.

## Why Ethics?

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- I'm not here to convince you to be ethical.



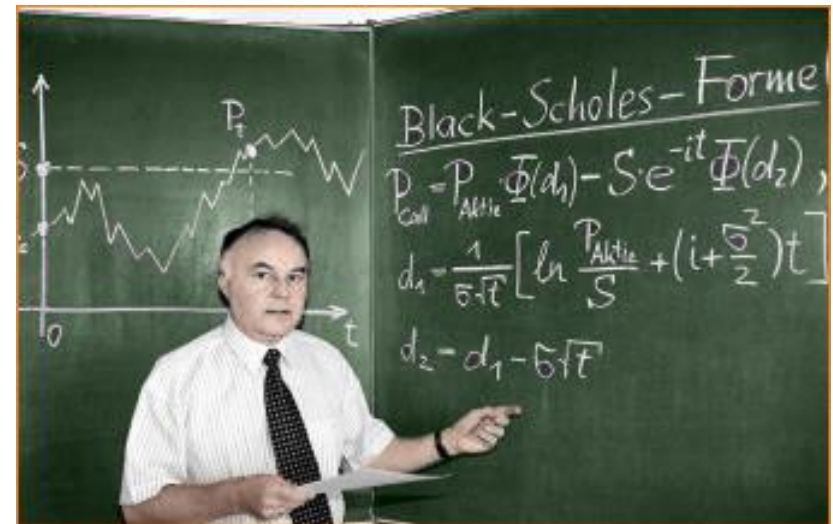
# Why ethics?

- I'm not here to convince you to be ethical.
  - I assume you want to be ethical.



# Why ethics?

- It's no different than a finance course.
  - The instructor doesn't convince you to make money.
  - He/she assumes you want to make money and tries to tell you how.



# Why ethics?

- Most people want to be ethical.
  - Evolutionary strategy
  - Mirror neurons

The New York Times  
**The Opinion Pages**

WORLD U.S. N.Y./REGION BUSINESS TECHNOLOGY SCIENCE HEALTH SPORTS OPINION

OP-ED COLUMNIST

## Nice Guys Finish First

By DAVID BROOKS

Published: May 16, 2011

The story of evolution, we have been told, is the story of the survival of the fittest. The strong eat the weak. The creatures that adapt to the environment pass on their selfish genes. Those that do not become extinct.



Josh Haner/The New York Times  
David Brooks

In this telling, we humans are like all other animals — deeply and thoroughly selfish. We spend our time trying to maximize our outcomes — competing for status, wealth and mating opportunities. Behavior that seems altruistic is really self-interest in disguise. Charity and fellowship are the cultural drapery atop the iron logic of nature.

All this is partially true, of course. Yet every day, it seems, a book crosses my desk, emphasizing a

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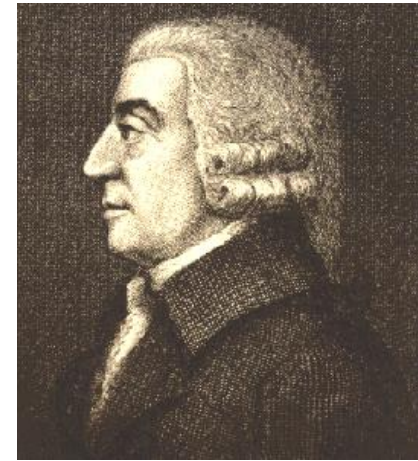
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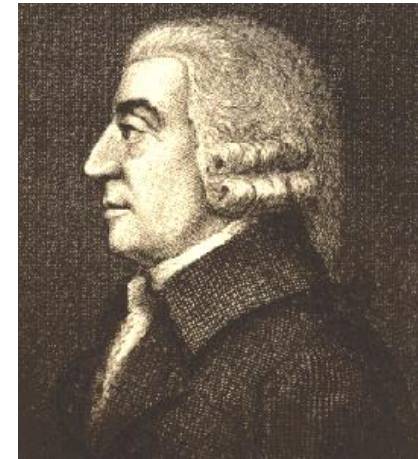
# Why ethics?

- Not a new idea...
  - Adam Smith
  - *Theory of Moral Sentiments* (1759)
  - Human behavior is based on empathy as well as self interest.



# Why ethics?

- Not a new idea...
  - Adam Smith
  - *Theory of Moral Sentiments* (1759)
  - Human behavior is based on empathy as well as self interest.
  - Mencius (*Mèng Zǐ*), 372-289 BCE
  - Human beings are altruistic by nature, but we must **cultivate** this trait.
    - Example – child in danger



# Why ethics?

- The job of ethics is to reach **rational consensus** on how we should live together.
  - We have to agree on the ground rules.
  - We can't just "take a vote."



## 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**.
  - We must **agree** on how to behave.
  - Law enforcement takes care of a few who don't get the message.



# Some myths about ethics

## Some myths

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

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- **Myth 1:** We learn ethics as little kids, not as adults.
- **Wrong:** Ethical maturity grows with cognitive maturity.
  - Making ethical decisions requires brainpower.
  - Successful leaders tend to have more advanced ethical reasoning skills.



## Some myths

- Lawrence Kohlberg's developmental stages
  - **Avoid punishment** (early childhood)
  - **Self interest** (late childhood)
  - **Social conformity** (early teens)
  - **Law and order, fundamentalism** (college age)
  - **Social contract, tolerance** (mature adulthood)
  - **Universal principles, wisdom** (60+, if ever)





## Some myths

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- **Myth 2:** Sitting in class doesn't change behavior. Only incentives change behavior.
- **OK, let's shut down the business school.**



## Some myths

- **Myth 3:** We all know what's right. It's just a matter of doing it.

## Some myths

- **Myth 3:** We all know what's right. It's just a matter of doing it.
- **Then why do we disagree all the time?**



## Some myths

- **Myth 4:** Ethics is just a matter of opinion.
  - There are no objective standards.
  - Only **personal values**.

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- **Myth 4:** Ethics is just a matter of opinion.
  - There are no objective standards.
  - Only **personal values**.
- Try to remember this the next time you are **mugged**.



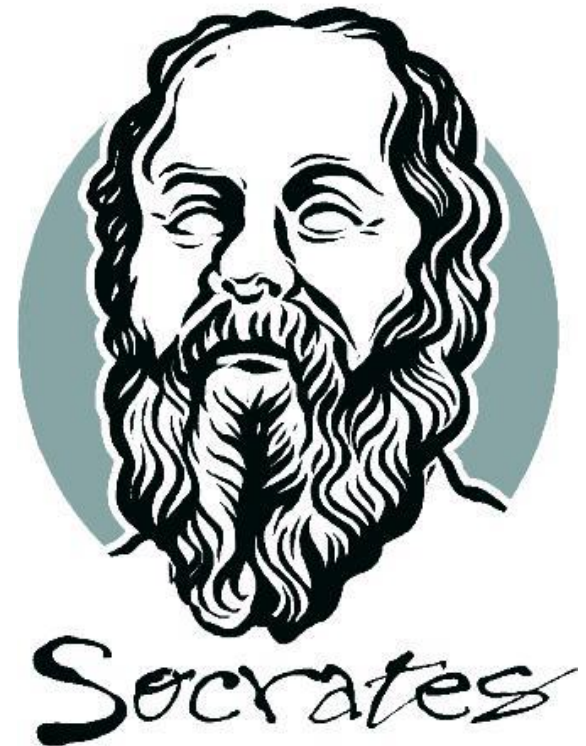
## Some myths

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



# Ethics as rational choice

- The Western approach:
  - Build **rational consensus** on the ground rules.
  - Legal tradition
    - Common law
  - Religious tradition (Eastern and Western)
    - Sophisticated ethical reasoning.





# Ethics as rational choice

- What has happened?
  - We have forgotten how to find rational consensus.
  - We mix ethics with emotions and ideology.
  - Result: polarization.



# How to make it objective

- Don't take it personally.
  - Ethics judges **acts**, not **people**.
  - The aim is to make the **right choice** next time.



# How to make it objective

- Avoid forming “opinions.”
  - Until it is time to make a choice.
    - We almost never change an expressed opinion.
  - I won’t give you my opinions, because I don’t have any.
    - I will show you arguments... but I don’t “agree” or “disagree” with the conclusions.



# How to make it objective

- Maintain professional distance
  - Focus on the arguments and evaluate them.
    - As in an investment or marketing decision.
    - Don't stake your ego on the outcome.
  - Build consensus.
    - This what leadership does.
    - It is also what ethics does.



# How to make it objective

- Learn how to analyze ethical issues
  - Based on conditions for rational choice.
  - Practice every day.



# Next

Rational Choice, Part I.