

Rational Choice II

Part 3 of a Video Tutorial on Business Ethics

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Lightly Edited Transcript with Slides

Introduction


Hi, and welcome to this third session of a business ethics tutorial. Today, I'd like to finish taking you through the basic theory of how to make rational choices and therefore ethical choices. I'm going to begin by finishing up some of the ramifications of the generalization principle, which I talked about in the last session. Namely, I'm going to talk about fiduciary duty and moral agency. Then I'm going to take you through the other two conditions for making ethical choices. So here we go.

Fiduciary Duty

What is fiduciary duty? It's a very important concept in business. "Fiduciary" comes from the Latin word for loyalty, and it refers to being loyal to the interests of the owners of the business; that is, the stockholders. For example, if I'm a member of the board of directors or a top executive of a business that's owned by stockholders, then I have an agreement with them. It's an agency agreement, which means that I make decisions on their behalf, and they compensate me for that.

We have a notion in popular culture here in the U.S. that business ethics is all about fiduciary duty, and there's nothing else to it. You simply have to maximize profits for the owners, and there's nothing else to think about.

Actually, the first question in business ethics is always: what is the ethical action for the *owners* of the business? Suppose, for example, that I'm



Rational choice, Part II

- Fiduciary duty
- Moral agency
- **Condition for rational choice:**
 - Be consistent with your goals
- **Condition for rational choice:**
 - Be consistent with who you are

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Fiduciary duty

- A fiduciary obligation is based on a promise to owners (stockholders).
 - Specifically, an agency agreement.
 - Applies primarily to directors and top executives.
- There is more to business ethics than fiduciary duty.
 - Many people run their own business.



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Fiduciary duty

- The prior question for business ethics:
 - What are the ethical duties of the **owners**?
- If a decision is **ethical** for the owners...
 - It is normally ethical for fiduciaries to carry it out.
- If a decision is **unethical** for the owners...
 - Are fiduciaries obligated to carry it out on their behalf?
 - This is a promise-keeping issue.

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running a business, and I would like to shut down a factory in Illinois and move it to Vietnam. I say this is my fiduciary duty, because the labor is cheaper there, and it's profitable for the business. However, I first have to ask, what if the owners of the business were sitting at my desk, running their own business? Suppose the stockholders were here, actually making the decisions themselves. Would it be ethical for *them* to do that? If so, then fine, I can do it on their behalf, and perhaps I have an obligation to do it on their behalf. On the other hand, suppose it wouldn't be ethical for the stockholders to shut down the factory like that. I'm not making a judgment, but suppose it wouldn't be ethical. Do I have an obligation to do it on their behalf, when it is unethical for them to do it? It's not so clear, is it?

It's actually a promise keeping dilemma. I've promised the owners of the business to take good care of their business, in exchange for my compensation. Well, suppose that promise entails doing something that would be unethical for *them* to do. Am I obligated to keep the promise? I think the lesson here is that the prior question is always what is ethical for the owners of the business, because they are responsible for the business. I'm going to address that issue, for the most part. I'm going to look at what's ethical and unethical for the owners of the business.

Moral Agency

I would like to move to another issue that I skipped over in the last session. I started with the assumption that people act for a reason, and I derived everything from that: the reason has to be consistent, and therefore has to be generalizable, and so forth. Why did I start with that assumption? There is a deep reason, and since we're going to come back to it, I think I should say something about it.

It has to do with the way that we distinguish behavior from action. Suppose, for example, that I leave my bedroom window open on a warm night. A mosquito buzzes in my window and bites me. Do I want to hold the mosquito responsible for that action? Probably not, because mosquitoes are the products of chemistry and biology, it's instinct, or whatever. Now suppose a burglar walks by my open window, sees my wallet on the nightstand, quietly climbs into the window, and steals my wallet. Do I want to hold the burglar responsible for that action? We tend to say, yes, of course. It's theft. But the burglar's actions are determined as much by chemistry and biology as the mosquito's. So what's the difference between the burglar and the mosquito?

Over the centuries in Western civilization, we have developed the theory to explain that difference. The difference is that the burglar's action can *also* be explained as the result of ratiocination. That is to say, the burglar found reasons to climb through that window and steal my wallet. He's saying, "I'm broke, I'd love to have a nice bottle of Jack Daniels whiskey, and if I could steal his wallet I could go to the liquor store and get it."



Moral agency

- **Why** must actions have reasons?
- It is a way to distinguish **action** from mere **behavior**.
 - A insect's **behavior** is explained only by cause-and-effect and so is not **free action**. 
 - Human actions are **moral agents** when their behavior can **also** be plausibly explained as based on reasons.
- Ethics can be applied to complex robots, beings from another planet.


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This is how we distinguish *moral agents* – that is, people who make free decisions – from mosquitoes. It’s why we’re not mosquitoes. The actions of moral agents can be explained as the result of deliberation, as the result of reasons they adduce for it. They may not be good reasons, but we ought to be able to attribute reasons to them somehow. This is what makes us humans moral agents, and this is why the reason for our action has to be coherent and consistent. An inconsistent reason is not a reason, because it doesn’t make sense. It has to be generalizable, for example, to make sense as a reason.


You don’t actually have to be human to be a moral agent, as long as your behavior can be explained on the basis of reasons. Very soon, for example, will have in our households, particularly elderly households, robots that do the housework for us. This raises the issue, do you have to be nice to your robot? Do you have to treat it like a moral agent? Once you start explaining your robot’s behavior as a result of the robot’s rationale and deliberation, once you start thinking about the robot as someone who makes decisions based on reasons, you have a moral agent in your house. It’s a matter of how you regard or explain the actions of the agent.

This notion of agency is important in ethics because it’s inconsistent and irrational to destroy agency. There’s a long story behind this, but no matter who we are or what we do, we can’t do it unless we are agents and can make free choices. It’s inconsistent to destroy agency because if I have a good reason to destroy someone else’s agency, it should be an equally good reason to destroy my agency [in similar circumstances]. We find it to be unethical to destroy agency. You can do that in many ways. Murder is destruction of agency, as is throwing someone in jail for no reason, coercion, serious bodily injury, refusal to allow someone to develop their cognitive capabilities, and so forth. We will come back to this in a couple of our cases.



Moral agency

- Fundamental obligation: **respect agency**.
 - Rules out murder, coercion, slavery, mental incapacitation, denial of cognitive development.
 - Except perhaps for purpose of preserving agency.
 - I can't rationally consent to loss of agency, no matter what my purposes.




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The Utilitarian Test

Now I’m going to move on to the two final conditions for making a rational choice. The first one is to be consistent with your goals. It begins with the premise very similar to the one I used for the first principle: when you do something, you do it as a means to an end. There’s something you have in mind as a goal.

I often ask my students, “Why are you in class today?” “Because you’re going to have a quiz.” “So what, if I have a quiz?” “I want to make a good grade on the quiz.” “Why?” “Because I want a good grade in the course.” “Why do you want a good grade in the course?” “Because I want a good GPA.” “Why a good GPA?”



Ultimate goals

- An action is a means to an end.
 - You want to achieve some goal or state of affairs.
- Make up your mind what your **ultimate goals** are, and **stick with them** consistently.

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“Because I want a job at Goldman Sachs.” “Why do you want a job at Goldman Sachs?” “Well, because I want to be successful and wealthy.” “Why do you want to be successful and wealthy?” “Ah... Let me think about that. I want to drive a Porsche and have a summer home on Cape Cod.” “Why do you want a summer home on Cape Cod?” Well, I just want to be...happy, I guess. I’m not sure that will work, but I want to be happy.”

At some point you have to decide what it’s all for. Whatever it’s all for, we’re going to call that *utility*. That’s the end for which the rest is the means. You may have several ends, but you must have at least one. The utilitarian principle says, make up your mind what the end is – what it’s all for – and stick to it. We’re starting with that.

Where does this go? Let’s say happiness is my end. It means that I think happiness is intrinsically valuable, not valuable as a means to something else, but valuable in itself. If that’s true, then happiness is good, and if happiness is good, then anyone should have it, myself or someone else. In fact, if I have a chance to make someone else happy, I should do it because I believe happiness is good.

Many people aren’t convinced by this line of argument, so let me put it a different way. Let me ask you, what’s wrong with causing people pain? Sometimes we cause people pain, such as shot in the arm, so they don’t get the flu. That’s OK, because it’s to avoid greater pain in the future. But what’s wrong with causing people gratuitous pain? What’s wrong with that, exactly? It may be generalizable, who knows? Well, one reason it’s wrong may be that I think that pain is inherently bad. It’s just something I’m going to avoid, except to avoid greater pain the future, for myself or someone else. That’s the only reason I think of for why I shouldn’t harm people and cause them pain gratuitously. So if pain is bad, no one should suffer it.

I’m going to apply that same argument to positive utility, to happiness. It’s the same argument. So if you reject my argument about happiness, you’re going to have to reject my argument about pain, and explain to me why it’s wrong to come up and slap someone in the face for no reason. You have to explain that to me. So I’m going to accept this argument.




Utilitarianism

- Suppose I say **happiness** is intrinsically good, an ultimate goal.
- Then **anyone** should have it, not just me.
- Let’s call the ultimate goal **utility**.
- I should try to create as much utility as I can.



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The underlying argument

- Why is it wrong for me to cause someone **pain**?
- Because I regard pain as **bad**.
 - Maybe one of my ultimate **goals** is to avoid pain.
- But if pain is bad, then **no one** should suffer it.
 - What else can it mean to say pain is bad?
 - if I really think pain is bad, I should try to avoid causing pain for **anyone**.
- The same goes for happiness (positive utility).

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The underlying argument

- But maybe I am interested only in **my** happiness.
 - If this is rational, there must be some **difference** between my happiness and others’ that justifies the distinction.
 - But I don’t claim this.
 - So the distinction is arbitrary and therefore **irrational**.

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I may say, “Yes, I think happiness is good, but I happen to be interested only in my own happiness. My happiness is no different anyone else’s, I grant, but I only care about mine.” That’s rational if I can make some distinction between my happiness and yours, but I don’t. I’m just arbitrarily saying that I care only about my happiness. But if it’s arbitrary, there’s no reason for it; that’s what “arbitrary” means. If there’s no reason for it, it’s irrational.

That leads to the *utilitarian test*: You should choose an action that maximizes total net utility for everyone concerned, everyone it affects. Otherwise, you’re inconsistent.

Measuring Utility

Now some people worry about whether you can measure utility. Actually, it’s not as hard as you might think. How do you measure happiness? In most cases, common sense will suffice, but if you want to know, there is a theory called utility theory. For example, if you want to measure utility against income or wealth, you can do that with a utility curve. They’re usually concave curves; there’s one on the slide. So as you get wealthier, each new dollar is worth less than the previous, because the curve is concave. You can actually build one of these curves for yourself, and we can build one for everyone. I won’t go into how to do it, but you can do it. So it’s actually not so hard to measure utility.

Utilitarian vs. Generalization Test

How about Jennifer? Remember her? She is the student who’s looking for a job. She got this great job offer in New York City but had already signed to work for someone else. She gave the argument, “You know, I could create more utility working at the job I like in New York City than I could working at the job I don’t like in Cleveland. Doesn’t that give me the right or an obligation to break my contract in Cleveland and go to New York?” Let’s grant that she would create more utility in New York. That means that breaking her contract and going to New York satisfies the utilitarian test. It absolutely does. That’s great. The only problem is, it violates the generalization test. You have to pass all the tests.




Utilitarian test

- The **utilitarian test** follows:
 - One should choose an action that maximizes net expected utility.


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Measuring utility

- All this assumes there is some way to **measure** the utility of an outcome.
 - How do you measure happiness?



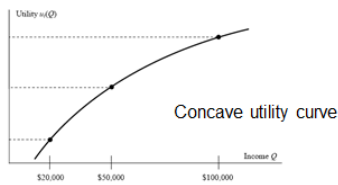
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Measuring utility

- **Calibrate a utility function...**
 - As a function of wealth, for example.
 - You can do this at home.



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Jennifer's job

- Jennifer might reason:
 - Someone else will create as much utility at Midwest as she would.
 - Her unique qualifications for Glamour will create more utility than their second choice hire.
 - She personally will be happier at Glamour.

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Jennifer's job

- So signing with Glamour passes the utilitarian test.
- But... it must satisfy the other two conditions of rational choice.
 - It has already failed the generalization test.

GLAMOUR

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However, there's another issue here. Don't these two tests come into conflict? Isn't it true that Jennifer can actually create *more* utility working at the job she likes, because she's really going to satisfy the customers in New York, while she would be bored and unproductive in Cleveland? Doesn't that greater utility give her an obligation to work in New York, whereas the generalization test gives her an obligation to work with the company she signed with?



Jennifer's job


- Signing with Glamour creates **more** utility than working for Midwest.
 - Doesn't this create an **obligation** to work for Glamour?
 - Doesn't Jennifer have **conflicting** obligations?
 - No...**

GLAMOUR

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Actually, no, there's no conflict. Neither principal overrides the other, and the reason is this. The utilitarian test says that I have to choose the action that maximizes utility, but what I choose has to be an *action*. To be an action, it has to satisfy the other conditions for rational choice. So if going to New York violates the generalization test, then it's really not an action. I just talked about that. I'm not exercising agency, because there's no coherent rationale for what I'm doing. It's just behavior, something like a twitch, or a mosquito buzzing around. It's not really a human action if there's no coherent rationale. So the test for utility only requires us to maximize utility subject to the condition that the action obeys all the other rules. So we're not required to go to New York to satisfy that condition.



Utilitarian test (clarified)

- One should choose an action that maximizes net expected utility **and** meets the other conditions for rational choice.
 - An option that fails another condition is **not an action**.



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The same thing goes for stealing a watch in the department store I talked about. I could probably increase utility by shoplifting a watch. The store is insured and won't miss it, while I get a new



Stealing the watch

- Stealing a watch may actually increase overall utility.
 - The shop is insured against theft anyway.
- But theft fails the generalization test.
 - Also violates the law, normally ungeneralizable.



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watch. My gain is probably greater than their loss. That's fine, it passes the utilitarian test. But it doesn't pass the generalization test. You have to pass them all.

Satisficing


Some people ask, what if you can't tell how to maximize utility? You can't predict the consequences of your actions. That's true, but you don't have to be omniscient. All you have to do is be rational. You have to say, "If I can rationally believe that no other action would create greater utility, then I'm okay. On the other hand, I can't be lazy about it. I have to do some research on the issue to find out the consequences of my actions."

It's like driving to a friend's house for a party, but I don't know where the house is. One way to do that is to hop in the car and drive around town until I find it. I could do that, but it's just not rational. It's rational to put some effort into looking at a map or GPS system and find out where it is. On the other hand, I don't want to spend eight hours researching the location before I go, because I won't have time for the party. This is called *satisficing*. You find an optimal balance between researching the issue and taking action. This is a term due to Herb Simon, my former colleague here at Carnegie Mellon.

Sacrificial Giving?


There's also an issue of the concavity of the utility curve. Remember that as you get richer, each successive dollar is worth less to you. So an extra \$1000 is worth less to Bill Gates than to me. That means that I can take \$1000 and give it to some very poor guy and increase net utility, because he gains more than I lose. Doesn't that imply that I have an obligation to give away almost everything, to give sacrificially, to all the poor of the world? So I will impoverish myself, but they'll be a lot better off and gain more than I lose. Do I have an obligation to do that? Doesn't that seem rather strict, rather severe?

Actually, no, there is no such obligation, because it's not generalizable. Suppose everyone sacrificially gave away all their assets, so as to increase overall utility (that's the reason for doing it). Then there's nothing left to build a productive economy. We can't invest in infrastructure or our kids' education because we've given everything away. So it doesn't




Lack of knowledge

- What if I **don't know** how much utility will result?
- The utilitarian test doesn't require omniscience – only rationality.
 - It should be not be **unreasonable to believe** that my action maximizes utility, given the evidence.
 - But I must make a **reasonable effort** to research the issue.
 - As when I drive to an unfamiliar destination.



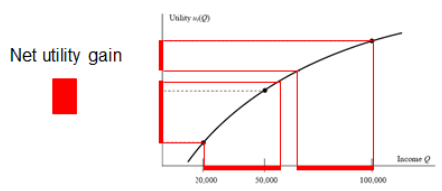
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Charitable contributions?

- Giving to the poor **increases net utility**.
 - The gift is worth more to the poor than to me.
 - Giving **most of what I have** maximizes utility.



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Charitable contributions?

- This is **not generalizable**.
 - If *everyone* gave sacrificially, there would be much less wealth to distribute.
 - We must invest in productive capacity.
 - It would be impossible to achieve the **purpose** of the action – to increase utility.
 - A vow of poverty is generalizable if there are more specific reasons for it.

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generalize. Everyone will be worse off if we generalize this practice, because we won't be able to build the economy that allows us to give things away. On the other hand, moderate generosity is perfectly consistent with increasing utility if it's generalized. So that's what we should do. We should be moderately generous, generous up to a point. Most people are.


Self-interest

Regarding the issue of self-interest, people sometimes get upset about it. Aren't we supposed to be self-interested? We can still be self-interested most of the time, consistent with the utilitarian principle. If you think about it, I'm the person who's in the best position to take care of myself. No one else can get me up in the morning and make me go to work. We can better control utility by focusing on what we do personally. We have control over our own actions, and there's really not as much I can do about other people's welfare as my own. I take care of myself first because I have control over myself.

However, as we get older and take on responsibilities – kids, clients, students – our actions tend to affect other people more and more. So we have a stronger obligation to think about other people's welfare as well as self-interest. Fortunately, as we grow older, we become more mature ethically and have the ability to take on that obligation.


The same goes for a business. What should a business do? It shouldn't give away everything to pro bono causes, because if businesses did that generally, they wouldn't be able to attract investors. There wouldn't be any business to give things away. A business's primary contribution is doing its job: making products and services in a responsible way. Business creates an enormous amount of positive utility by doing what it does best. This is the great attraction of business. You can get a lot of good things done. People work together, they're very efficient, they learn to do it well, and they get very good at it. So this is what a business should spend most of its time doing – doing what it does well, in a responsible way, so as to create positive utility.

As a business becomes more mature, an established corporation, it can start thinking about pro bono projects like building infrastructure and schools in developing countries, and so forth. A



Charitable contributions?

- Solution: **give a moderate amount.**
 - We make our **primary contribution** through our work, taking care of our families, etc.



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Self interest

- Self interest still plays a major role.
 - Most people have the greatest control over their own welfare.
 - Obligations change as one acquires responsibility for others.




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Business contributions

- The same applies to a business.
 - A business makes its **primary contribution** through the **responsible creation of valuable goods and services.**



- More mature companies should make pro bono contributions – whether or not it benefits PR.

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startup has to be more selfish, just as young people have to be more selfish to invest in themselves, so that they can invest in others later.

Choosing a Career

Finally, people often ask me about how to choose a career. It would seem, offhand, that the principle of utility would require me to go into a career where I can do the most good. I should be a heart surgeon and save lives. I should be a relief worker in the flood plains of Bangladesh, or whatever. Well, if we are all heart surgeons and relief workers, things aren't going to work. Someone has to make toilet seats. So what do we do here?


If I choose to be a relief worker or heart surgeon simply for the purpose of creating more utility, that's not generalizable, because if everyone did it simply for that reason, we wouldn't create more utility. No one would make cars, sweep the floor, and so forth. So I must have more specific reasons for my career choice. I want to create positive utility, absolutely, and make a contribution – and I can tell you that people want to make a contribution – but I do it for reasons that are peculiar to me and consider my own desires, vision, dreams, and abilities. We can all choose a career that makes a positive contribution and takes advantage of our peculiar strengths and interests. It's generalizable, and everything works out positively.

Virtue Ethics

The final condition for an ethical choice is something called virtue ethics. It's a little squishy and vague, but sometimes it's the deciding factor. It has to do with the principle: act in a way that's consistent with who you are. The idea is that you can't decide how to live your life unless there's some basis for this decision. It has to come from somewhere, some idea of why we're here and who we are.


We're going to try to find common ground as to why we're here and who we are, so that we can translate this into ethics. This may seem a hopeless task, but there's actually an old tradition here, called virtue ethics, that comes from Aristotle. I'll present this to you, and you can see what you think of it.

Aristotle said that we can sometimes explain how things work teleologically. That means we give them a purpose. For example, when explaining the




Choice of career

- Must I choose the career with maximum positive impact?
 - Not generalizable.
 - We can't all be surgeons or relief workers.
 - The reasons for my choice must be more specific than maximizing impact.
 - Subject to generalizability...
 - I should choose a career that I can reasonably believe maximizes overall utility, given who I am.



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Virtue ethics

- A rational decision can't come from **nowhere**.
 - It must be based on a larger understanding of our role in the world.
 - We can't decide what to do until we decide **who we are** and **why we're here**.
- This leads to **virtue ethics**.
 - An effort to find common ground on who we are as human beings.


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Teleological explanation

- Teleological explanation makes sense of things by assigning them a **purpose** or function in a system.
 - *Telos* = purpose



Aristotle

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human body, I might say, “I can tell you why heart is there: to pump blood. It has a purpose. I can’t prove this, but it certainly helps us to understand what’s going on in the body.” The way we tell what is the purpose of the thing is to find out what it’s uniquely qualified to do in that system. Kidneys don’t pump blood very well, so that must not be why they are there, but hearts are good at it.

Aristotle applied this idea to human beings. What are we uniquely qualified to bring to this world, something nothing else can bring? He thought it was the “virtues,” such as courage, intelligence, honor, and friendship. Lions and tigers don’t have courage; they are only brave, because they don’t overcome their fears. Squirrels don’t enjoy the sunset, so far as we know, but we human beings have aesthetic sensibility. It’s one of our virtues. These virtues are what we humans uniquely have. Maybe that’s why we’re here. Maybe that’s who we are, and if so we should act consistently with those virtues.

Sometimes a choice of career, particularly in our culture, defines who we are, and we should have consistently with the mission of our career. Otherwise, we are alienated from ourselves.

In fact, the two prior conditions I gave you – the utilitarian test and the generalization test – are really based on our self-concept as rational moral agents. They draw out the consequences of that self-concept and so are really special cases of virtue ethics.

Virtue ethics is vague, but it does tell us that if there’s no conflict of virtues, we should not act contrary to a virtue, because that would be action contrary to who we are as human beings. Another word for this is “integrity.” It comes from the same word as “integer,” or whole number. Integrity means wholeness. If we have integrity, then we act in accordance with who we are. For example, if I double-cross a friend, I don’t want to think about it. It keeps me up at night, and I don’t want to look at myself in the mirror. It alienates me from myself




Teleological explanation

- The function of a thing is to do what it is **uniquely qualified to do**.
 - The heart’s function is to pump blood.
 - A human being’s function is to bring uniquely human qualities to the world (**virtues**).
 - Courage, honor, loyalty, (applied) intelligence, aesthetic sensibility, *sophrosyne*.
 - Otherwise, why are we here?

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Who we are

- A self-concept of **autonomous moral agent** defines who we are.
 - It commits us to the rationality-based ethics described here.
- A choice of **career** defines who we are in professional life.
 - We should be true to this choice.


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Integrity

- The fundamental goal is **integrity** (wholeness).
 - Actions must not alienate you from your humanity.
 - You must be able to “live with” your actions.



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The practical content

- Virtue ethics is rather vague, but it tells us:
 - It is **irrational to sacrifice a virtue, except for the sake of another virtue**.

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and splits my personality, in a way. I am losing integrity by acting against who I am as a human being, because part of being human is taking care of your friends. If I have no friends, no concept of friendship, then I'm not fully human. So integrity is not honesty, or whatever, but is being a whole person.

Jennifer's Job


Let's go back to Jennifer. She is tempted to break her word to the company in Cleveland. That's a violation of honor. According to Aristotle, honor is part of who we are as human beings. If we have no sense of honor, we're not fully human. So that's a violation of her integrity.

On the other hand, one of our virtues is intellectual capacity. Jennifer thinks that by going to New York, she can develop her rational faculties, be more competent, and take advantage of her abilities. So she has a conflict of virtues. In a case like this, we have to say there's no clear verdict from the virtue test. But in some cases there is a clear verdict.

So if we put up a scorecard for Jennifer's decision, she passes two of the tests but fails the generalization test if she goes to New York without the consent of her employers in Cleveland.

What's Coming

In the next three sessions I'm going to take you through some examples, some real-life cases, starting with easy ones and then moving on to more difficult business case studies. See you then.



Jennifer's job

- Honor is a virtue.
 - Keep your word.
 - If this is the only virtue at stake, then the choice is already clear.
- Developing intellectual potential is also a virtue.
 - Take the new offer.
- So the virtue test is passed.
 - There is a conflict of virtues.

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Jennifer's job

- Scorecard: Take the NYC job?
 - Generalization test: **fail**
 - Utilitarian test: **pass**
 - Virtue ethics test: conflict of virtues, therefore **pass**



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Next

- Some examples from everyday life

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