

Everyday Dilemmas

Part of a Video Tutorial on Business Ethics

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Lightly Edited Transcript with Slides

Introduction

This is Session 4 of a Business Ethics Tutorial. In the previous three sessions I talked to you about why we have ethics, and I presented to you, very briefly, a framework for making ethical choices, based on three conditions for rational choice. Now I want to begin to show you some examples, because it's in working through the examples that we actually learn how to apply ethical principles, and it's a lot more fun, too.



Examples

- Boarding the plane
- The ambulance
- Cashier's error
- A damaged car
- Boss's expense account
- Cheap stuffing

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In this session, I'm going to take you through six relatively easy examples to show how this stuff works out in practice. In the last two sessions, I will look at more complicated case studies from the business world. So these are my cases: Boarding a Plane, The Ambulance, A Cashier's Error, A Damaged Car, The Boss's Expense Account, and Cheap Stuffing. I'm going to go through these rather quickly, because it's important to see a wide variety of cases to understand how to apply ethics. As a result, I'm taking you through as many as possible, which means I may go faster than you can follow me. So I suggest you come back and go through these again three or four times, think them over, and see if you can follow the arguments offline.

Boarding a Plane

The first case is Boarding a Plane. We've all had this experience, I'm sure. I have a zone printed on my ticket, zone 4. To expedite boarding, the airline has assigned some people to come in first, those in zone 1. These are the guys in the back of the plane, next to the windows, and so forth. It is for the purpose of expediting boarding, so we don't have to crawl over each other to get on the plane. I notice that the ticket agent is not actually checking the zones, and so I can go on early if I want, and no one will know it. It happens that I have a rather large



Boarding the plane

- The airline boards by zones...
 - To expedite boarding.
 - Early zones are nearer the back and windows.
 - But the agent isn't checking zones...



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Boarding the plane

- I have a rather large carry-on.
 - I want to be sure to find space overhead.
 - So I board before my zone.
 - OK?



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Boarding the plane

- Generalization test.
 - My reasons:
 - I want to be sure to find space for my bag.
 - Nobody is checking the zones.
 - This doesn't seem to be generalizable.
 - But exactly why?



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carry-on bag, and I would like to put it in the overhead bin. If I go in with zone 4, there won't be any space left up there. So I think I'm going to board before my zone. Is that OK?

Let's first apply the generalization test. I have to look at my reasons. Why am I doing this? There are a couple of reasons: I want to find space for my bag in there, and secondly, no one's checking, and I can get away with it. This doesn't seem to be generalizable, offhand. If everyone did this, it wouldn't work anymore, would it? Too many people would get ahead of me. But let's think about exactly why it's not generalizable. I'm going to make two or three attempts to apply the generalization test to this.


I wouldn't want everyone else to do this, because if they did, they would get ahead of me. But that's not the generalization test. It doesn't matter what I want. What I want is not the test. The test is whether my reasons are consistent with the assumption that everyone else with the same reasons acts the same way. It's not about what I want.

Let's try again: attempt number 2. If everyone who has a bag like mine were to board early, it would defeat the purpose of having the zone system. The guys who are in the back and next to windows wouldn't be going in first, we would all be crawling over each other, and this would defeat the purpose of the whole system. Maybe that's the problem here. Well, it's true that it would defeat the purpose of the system, which wouldn't work anymore. But that's not why the action isn't generalizable for me. I have to check whether it would defeat *my* purpose, and my purpose is to stow my bag overhead in the cabin.

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Boarding the plane

- Generalization test, 1st attempt.
 - Fails, because I wouldn't want everyone else with a large carry-on to do the same.
 - Too many people would get ahead of me.
 - Wrong.
 - It doesn't matter what I "want."



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Boarding the plane

- Generalization test, 2nd attempt.
 - Fails, because if everybody with a bag tried to board early...
 - It would defeat the purpose of expediting the boarding process.
 - Wrong.
 - It would defeat the **airline's** purpose.
 - What matters is **my** purpose—finding space for my bag.



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Let's try again. If everyone with a large bag like mine were to board early when they could get away with it, then either I would no longer be assured of finding a space for my bag, because they would get ahead of me, or the airline would start checking the tickets to make sure people don't board early. Those happen to be my two reasons for doing it: they are not checking, and I want to find space for my bag. So the assumption that everyone else does the same thing, when they have the same reasons, is inconsistent with my reasons for doing it. That's


the test, and I failed it. That's how you apply the generalization test.

There's also the utilitarian test. Suppose I board early, even though I'm in zone 4. I'm going to slow things down a little, because someone will have to crawl over me to get into their seat. That's a slight decrease in utility. The effect on the bag space is nil, because I find more space for my bag while others find less space, and it evens out. Yet there is a slight reduction in the convenience of getting on the plane. So there is a slight violation of the utilitarian test.

That was a pretty easy case – I shouldn't do it – although it seems to me, when I travel, that a lot of people in the airport don't seem to think this way. They board early. So I ask myself the question: if we can't even agree on how we should board a plane, how can we agree on how to solve the national debt problem? Maybe we should start with the basics and work up.


The Ambulance

Case number 2: The Ambulance. I'm an emergency paramedic. I drive an ambulance. It happens that I have an appointment with my boss, and I'm not going to make it, because the traffic is heavy. So I decide to use the siren and lights to get there on time. Is that ethical? It's probably illegal, but let's suppose for the sake of argument that it's legal. I just want to know if it's ethical. You are saying, "Of course it's not ethical!" Why? Why isn't it ethical? Let's look at it.



Boarding the plane

- **Generalization test, 3rd attempt.**
 - Fails, because if everybody with a bag tried to board early...
 - I would no longer be sure to find space for my bag, or...
 - The agents would always check zones.
 - Correct.
 - Boarding early, for these reasons, is not generalizable.



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Boarding the plane

- **Utilitarian test.**
 - Boarding out of order marginally slows the boarding process.
 - There is no net effect on bag space.
 - Net reduction in utility.
 - Fails the test.



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Boarding the plane

- **Scorecard**
 - Generalization test: **fail**
 - Utilitarian test: **fail**
 - Virtue ethics: not applied




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The ambulance


- **I am an emergency paramedic.**
 - I have a meeting with my boss.
 - Heavy traffic will make me late.
 - So I use the siren and lights.
- **Ethical?**
 - It's not legal, but let's suppose it is.



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Let's try the generalization test first. What are my reasons for using the siren? The siren will get me there on time; otherwise, the heavy traffic will make me late. Secondly, I'm supposing that no one is going to know. Now, let's generalize. Suppose that every emergency medical worker who has an appointment with the boss when there's heavy traffic, and who won't get caught, decides to turn on the siren. How often does this happen? Maybe once or twice a year in a given city. Will this cause a problem? Will people become cynical about ambulances and ignore the siren? No, it won't make any difference. So it is generalizable.

So what's the problem here? Does this mean it's OK? The problem here is that I've drawn the scope too narrowly. Remember the scope? We talked about Gertrude Grosvenor, who used her name as an excuse to steal a watch. I'm doing that here. The reason that I'm using the siren is not simply that I have an appointment with my boss, or there's heavy traffic. The real reason is that I'm running late, and I want to get there on time. I'm in a hurry. If it were something else, why wouldn't I do the same? Suppose it were a job interview, or suppose I'm late for a flight, or suppose there's no heavy traffic, but I lost my keys in the parking lot had to find them. There's a thousand different ways I could be late or in a hurry. Why wouldn't I use the siren for those? There's no reason I wouldn't. I would. Now I might insist that I wouldn't do it in those cases. I would do it only in this particular case. But that's not precisely the test. I don't have to psychoanalyze myself to figure out what I would do psychologically. I simply have to ask, what are my reasons? Why would I use a siren for an appointment with the boss when I wouldn't use the siren to meet a flight on time? Why? Uh, I dunno. Well, I have to have a reason. I'm making a distinction, and I have to know my reason for that distinction. If I don't know what it is, my reason is simply that I want to get there in a hurry, and that's not generalizable. That's how you reason about scope in a case like this.




The ambulance

- Generalization test.
 - My reasons:
 - Traffic will make me late for an appointment with the boss.
 - I won't be caught.
 - This is a rare circumstance for EMS workers.
 - Passes the test.




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The ambulance

- Generalization test.
 - Problem:
 - The **scope** is too narrow.
 - I would use the siren if I were late for a job interview, a flight, etc. etc.
 - Or if I am held up by something else.
 - In effect,
 - I am using the siren whenever I really want to get there on time.
 - Not generalizable.




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The ambulance

- Generalization test.
 - But I insist:
 - I would use the siren only in these particular circumstances.
 - Then why?
 - I don't have to **predict** what I would do.
 - I must have a **rationale** for singling out these particular circumstances.
 - I don't have one.
 - So I fail the test.



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The utilitarian test? Let's see how that goes. I might reason that if everyone did this, then people would ignore ambulance sirens, and it would be impossible to get people to the hospital in a timely way, perhaps resulting in death. That's negative utility, for sure. But this is not the utilitarian test. The test doesn't ask the consequences if everyone did it, but only the consequences of my particular action. Yet even in my case, if I'm screaming through traffic with my siren going, I create a risk of an accident, and that creates negative expected utility. There may not be an accident, but if you multiply the probability of an accident by the utility that would result, which is very negative, you get a negative expected utility that probably outweighs the positive utility of my getting to my appointment on time. After all, I could call the boss and say I'm going to be ten minutes late. On the other hand, if I have a patient in the back of the ambulance, the negative utility of taking the risk is probably outweighed by the importance of rushing this person to the hospital, and I pass the test. But when I use the siren for my own purposes, I fail the utilitarian test.

Finally, virtue ethics. It's a question of my career. I've devoted my career to saving people's lives and making them well, by taking on this dangerous, very high-stress job of driving an ambulance. But now I'm using the siren to create an unnecessary risk of injury. That's contrary to who I am, contrary to what I'm all about. So I have a problem with virtue as well.

So I'm batting zero. I failed all three tests.

The Cashier's Error

Let's go to another one. You would be surprised by how many people ask me about this little case. I go a department store to buy several expensive items, and one of them is a camcorder that costs \$600. I return home, look at the cash register ticket, and realize that the cashier forgot to ring up that \$600. What do I do about it? Is it OK to let it ride? We are inclined to say, "No, you should pay

The ambulance

- Utilitarian test
 - If drivers always abused the siren in such cases, emergency patients would suffer.
 - Irrelevant. Utilitarian test asks consequences of my action.
 - My abuse of the siren increases **risk** of an accident.
 - The negative **expected utility** probably outweighs the positive value of being on time.
 - Not so on an emergency call.
 - So I fail the test.

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The ambulance

- Virtue ethics
 - I am an EMS worker.
 - I devote my career to making people well.
 - Creating unnecessary risk of injury is inconsistent with this mission.
 - I fail the test.



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The ambulance

- Scorecard
 - Generalization test: **fail**
 - Utilitarian test: **fail**
 - Virtue ethics: **fail**



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Cashier's error

- I buy several expensive items in a store.
 - On arriving home, I find that the cashier forgot to ring up a \$600 camcorder.
- Suppose I do nothing.
- Ethical?



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for it!” Let’s think about why. The reason is pretty simple: I have a sales contract. When I went through the checkout with this camera, I made an agreement to pay the store \$600 in exchange for the camera. True, there’s no camera listed on the cash register receipt, but the receipt is not a contract. The receipt is a receipt.


You might say that the camera is a gift. They didn’t charge me for it, and so they must be giving it to me. But a gift has to be intentional. When you give something to someone, you mean to give it. They didn’t mean to give me the camera. So it’s not a gift, it’s just a mistake on their part. I haven’t honored the terms of the contract until I pay. So it’s a very simple case. So far, so good.

Now, suppose it’s not a \$600 camcorder but a 25-cent pack of gum. Now, what? When I arrive home and find that I didn’t pay for a 25-cent pack of gum, am I supposed to get into my gas-guzzling SUV and drive across town to pay for it? No. But why? A contract is a contract. It shouldn’t matter what the amount is, if I’m serious about ethics.

Remember that you can nullify or change a contract by mutual consent, and that’s generalizable. Suppose I were to ring up the manager of the store and say, “You know what, I didn’t pay for a 25-cent pack of gum. Is it OK if I just keep it?” What would he say? He would say, “Sure, don’t worry about it.” In other words, I have mutual consent. I’m absolutely certain that the manager would consent, and therefore he does consent. If it were a \$10 item, I would not be so certain, and I would have to check it out. But if it’s 25 cents, I’m certain he would consent, and that’s what mutual consent is [i.e., it’s defined as a counterfactual conditional: he would consent if asked]. So my failure to pay is generalizable.


A Damaged Car

Another case, which I got from an MBA student. I have about 300 dilemmas from MBA students, and this is one of them. I am buying a car. I go to the dealership and negotiate with the salesman, and we arrive at a price for the new car, as well as a trade-in price for my old car. I’m not sure I like the price, and when I hesitate, the salesman tells me, “Here, take this lunch




Cashier's error

- Generalization test
 - Breaking a sales contract is ungeneralizable.
 - The cash register receipt is a **receipt**, not a contract.
 - A mistake is not a gift.
- Not generalizable.




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Cashier's error

- Now suppose the cashier forgot to ring up a 25¢ pack of gum.
 - Why should the amount of the purchase make a difference?
 - A contract is a contract.



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Cashier's error

- Generalization test
 - Agreements can be nullified by mutual consent.
 - This is generalizable.
 - We are certain the manager would say “forget it” if asked.
 - This is what consent means.
 - Generalizable.

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A damaged car

- I want to buy a new car from a dealership.
 - And trade in my old car.
 - We negotiate a price for the new and old cars.
 - But I'm not sure I like the deal.
 - The salesman gives me a lunch voucher, so I can think about it over lunch.



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voucher, drive down the street to the restaurant and have a nice lunch while you think it over, and then come back and let me know.” I’m thinking, a free lunch? I can’t turn that down. So I drive over and have a free lunch.

On the way back to the car dealership, I have a little fender-bender, a little accident. I get out and look at the car. From a distance, I don’t see any problem, but when I look up close, I see that I’m going to have to replace the bumper. I’m thinking, once you add everything up, this is going to be a \$1000 job. You know how body work is, it really adds up. So I drive the car back to the dealership and park out at the edge of the parking lot, far from the entrance. The salesman doesn’t notice any damage on my car.

I start thinking: during lunch, I looked up the book value of my car on my smart phone. The salesman offered me a price that was \$1000 below book value! So why don’t I just neglect to mention the damage? Isn’t there a principle of *caveat emptor*, let the buyer beware? It’s his responsibility to check out this car. Besides, it’s only fair, because he made a lowball bid, and I’m making up for it.

Is this OK? Let’s see if it is. Let’s apply the utilitarian test first. Do I increase utility by not mentioning the damage? I probably do, because the dealership can fix it for less than \$1000 – that price is inflated for insurance – and besides, they can afford it, while \$1000 is a lot of money for me. I would gain more than they would lose if I don’t mention the damage. So I pass the test. I’m OK there.

Now, the generalization test. The problem here is that I seem to be violating the sales agreement. I agreed to turn in this car in exchange for that amount of money. But I’m bringing in a car that’s different than the car the dealer looked at




A damaged car

- While driving the old car back from lunch,
 - I have a minor accident.
 - The damage is not conspicuous, but the bumper must be replaced.
 - I estimate the repair bill at \$1000.




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A damaged car

- The dealer doesn’t notice any damage.
 - The price he offered me for my old car was \$1000 below book value.
 - Should I go ahead with the deal...
 - Without mentioning the damage?



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A damaged car

- Utilitarian test
 - The utility cost is greater to me than to the dealer
 - Partly because utility curves are concave.
 - So failure to mention the damage creates a net increase in utility.
 - It passes the test.



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A damaged car

- Generalization test
 - The dealer offered to trade to buy the old car in the condition he saw it.
 - If I had completely wrecked the car, this would violate the deal.
 - The fact that the damage is minor doesn't change anything.



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A damaged car

- Generalization test
 - If I had not damaged the car, it would have still suffered minor wear and tear.
 - It would not be the same car the dealer saw.
 - But the dealer expects wear and tear on a lunch trip.
 - This is part of the deal.



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when he made the offer. I might argue: suppose there had been no accident, and I bought the car in without damage. It would still have a little wear and tear on the tires, and maybe a couple of bugs on the windshield that weren't there before. This isn't the "same car," either. Does that make it a breach of the agreement? No, of course not, because the dealer told me to drive it to lunch and is expecting wear and tear on the car. It's part of the deal. But he's not expecting a damaged bumper. That's not part of the deal. It's a violation of the sales agreement, pure and simple.

How about the book value argument? I'm arguing that a car with \$1000 damage is a fair deal because the dealer made an offer that was too low, by about the same amount. First of all, what does "fair" mean? How do we tell what's fair? People have all sorts of ideas about what's fair. This is why we stick to the three conditions for rational choice. We know what they mean and how to apply them. Besides, the offer may have been too low, but if I don't like it, I shouldn't accept it. Once I accept the offer, it's a deal. Too low or too high, it's my choice to accept it or not.

So here is the score card: not mentioning the damage fails the generalization test but passes the utilitarian test.

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A damaged car

- Scorecard
 - Generalization test: **fail**
 - Utilitarian test: **pass**
 - Virtue ethics: not applied



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The Boss's Expense Account

Another case. I'm working for a company, and my boss asks me to accompany him on a trip to San Francisco. That sounds like fun. Nice city. When I book my flight through the company travel agent, the agent says, "I'm looking at this trip and I see there's a third party going with you guys." I look at the itinerary and recognize the name of my boss's wife. She has a different surname than my boss, and so the agent doesn't

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Boss's expense account

- My boss asked me to accompany him on a trip to San Francisco.
 - I booked my flight through the company travel service.
 - I asked the agent to charge the trip to my boss's account.
 - The agent remarked that a 3rd party was going at company expense.
 - I recognized the name of my boss's wife (different surname than my boss)
- What to do?



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realize what's going on. But I know what's going on. He's taking her along for a little holiday, at company expense. What should I do about this? Let it ride? Report it to the company?

You wouldn't believe how many instances of this dilemma come up in my classes. It happens all the time: how to deal with a boss who is doing something questionable. There are two issues here. The first one: is the boss doing something unethical? That's the easy one. The second issue: should I report it to the company? Let's take them one at a time.


First, is the boss doing something unethical? He's deceiving the company. He's leading the company to believe that this third party is going along for business reasons. Deception is not generalizable. If everyone deceived people just for their personal convenience, you wouldn't be able to deceive people anymore, because they wouldn't believe you. They would check up on everything you say. The only reason the boss can deceive the company is that not everyone does it all the time. That's not generalizable. Furthermore, it's a violation of his agreement with the company. If you take a job with a company, you implicitly agree to abide by the company rules. So the boss is violating his employment agreement with the company. So this is an easy case.

Now: is it OK for me to keep quiet about this? First, what is the utilitarian outcome? What would happen if I were to report my boss to the company? It's hard to tell. I might get in real trouble with the boss. He may take it out on me and get me fired. Who knows? Or I could become a hero for tracking down fraud and corruption. I might get promoted by the higher-ups. I have no idea. Unfortunately, this is the way it is with whistle-blowing cases. This is a small case of whistle-blowing, internal whistle-blowing. I hate whistle-blowing cases, because they are the hardest ones in the world. You have absolutely no idea what is going to happen. It's a loose cannon out there. So from a utilitarian point of view, it's completely unpredictable. No matter how much I research it, I probably won't know what would happen. We have to say that either action passes the test, because it's not unreasonable to believe that either would maximize utility.




Boss's expense account

- Two issues:
 - Is my boss's conduct unethical?
 - If so, should I report it to the company?




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Boss's expense account

- Is my boss's conduct unethical?
 - He deceived the company.
 - He represented his wife's expenses as a legitimate business expense.
 - Deception merely for convenience is not generalizable.
 - He broke an agreement to follow company rules.
 - Also ungeneralizable.



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Boss's expense account

- Is it OK if I keep quiet about this?
 - Utilitarian outcome is unclear.
 - Whistle-blowing cases can be **very** unclear.
 - Generalizable?
 - No, if I have oversight responsibilities (I don't).
 - Yes, because small irregularities are frequently caught by control mechanisms. I could still accomplish my purpose if act is generalized.
 - Virtue ethics
 - Perhaps loyalty to boss (not to company).

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Is keeping quiet about the boss generalizable? If it's part of my job to monitor company accounts, then of course it's not generalizable, because I have an agreement with the company. Part of my employment agreement would be to keep track of these things. However, this is not part of my job. There are other people who do such things. Given that, let's generalize. Suppose that employees never report on their boss about routine padding of the expense account. Would they still be able to achieve the purpose of not reporting? The purpose, I guess, is to stay out of trouble and not get fired. Would they still be able to achieve this purpose? Sure. There are other mechanisms to catch cheating. The company wouldn't go bankrupt. [If it would go bankrupt, I wouldn't be able to keep my job after all, and I wouldn't achieve my purpose. But it wouldn't go out of business.] So, my failure to report is generalizable. I can go to San Francisco, have a good time, and forget about my boss's ethical problem.

You can't extend this to other cases. If I find that the company controller is cooking the books, and there's nobody around whose job it is to check this, and I happen to know about it, and if people never reported such high-level fraud we would start having Enron-like business scandals that would destroy the economy, that's different. But in the case of the boss's expense account, it's generalizable.

The scorecard: saying nothing passes all the tests. There could be a virtue ethics question here, because there is a virtue at stake. I have a loyal obligation to my boss, perhaps. But loyalty would actually encourage me not to speak up, so I'm OK. You might argue that I have a loyalty obligation to the company. I should be loyal to the company by speaking up. No. Loyalty only applies to human beings. You're loyal to human beings, not to organizations. Loyalty to organizations is not part of virtue ethics, because you can be human without having loyalty to any organization. You may not even be a member of an organization and still be human. That's the reason. But you can't be human without loyalty to other humans, at least your family or spouse. Loyalty to organizations isn't necessary to our humanity, while loyalty to other humans is necessary for our humanity.


Cheap Stuffing

The final dilemma sounds like a simple case, but I love it because it's not simple. It may seem hum-drum, but it has some interesting aspects that will help us think about ethics. I'm a furniture manufacturer, and I have a reputation for high-quality upholstered furniture; a very good brand name. Unfortunately, we've had an economic downturn, a recession. The company has to cut costs, so it decides to put some cheap stuffing in



Boss's expense account

- Scorecard
 - Generalization test: **pass**.
 - Utilitarian test: **pass** (because utility unclear).
 - Virtue ethics: **pass**
- OK to keep quiet.
 - Reporting would also probably pass the tests.



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Cheap stuffing

- A furniture manufacturer has a reputation for high-quality upholstered furniture.
 - Due to an economic downturn, the company will cut costs by switching to an inferior grade of padding.
 - There are no plans to alert customers, and they won't notice any difference at the time of purchase.
 - The company has never promised high-quality padding in ads, product specs, or meetings with customers.
 - Is this ethical?



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its sofas, a cheaper grade of stuffing than they have been using. Customers have come to expect high quality from our furniture. They know the furniture will last because the stuffing is high quality. But without saying anything, we're going to substitute cheap stuffing and sell it under the same brand name for the same price. To make this clean, I'm going to suppose that we have never claimed in our ads, our promotional material, or in our conversation with customers that the stuffing is high quality. It's just that customers have learned over the years that the quality is high because the furniture holds up. The issue here is whether it's ethical for me to betray my brand name, in some sense, by substituting low quality. I'm not saying anything false, and I'm not going against my advertising. I'm simply changing the quality, inconsistent with the brand name. Is that ethical? Let's have a look at it.

An underlying issue, obviously, is whether it's deceptive. Am I deceiving the customer? Generally, as we have said before, deception is not generalizable. Now to deceive someone, you don't actually have to tell a lie. Deception is causing someone to believe something that you know is false. For example, suppose I get a lab report from my doctor. When the doctor sent the report, he looked over the results and saw that they all looked good – except for that spot on the chest X-ray. Cancer. So the doctor said, "I'm going to leave that

one out. I don't want the patient to get upset." So when I get the lab report, everything is hunky-dory. Everything in the report is true. The doctor isn't lying to me, but he's deceiving me. He's leading me to believe that I'm healthy when he knows that's false. That's deception. You can deceive without lying.

Is that what is going on here? Am I deceiving customers without actually lying to them? We have to address that issue. I am, in fact, deceiving customers if they would expect me to update them on the quality of the stuffing. Let me explain what I'm talking about. Suppose, for example, that you ask to come see me in my office. I say yes, tomorrow I'll be in the office all day. You can come see me. However, tonight I change my mind. I'm not going to be here, and I know you are coming, but I don't tell you about it. When you show up, I'm not here. That's deception, because you would expect to me to update you as to whether I'm going to be here, if I know that I won't.



Cheap stuffing

- Deception, merely for one's own benefit, is not generalizable.
 - Deception need not be a lie.
 - Deception is **causing someone to believe something you know is false.**



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Cheap stuffing

- Is this deception?
 - The company caused customers to believe the quality is high.
 - But quality was high when the company created its reputation.
 - So **creating** the reputation was not deceptive.
 - Reducing quality without warning can be deceptive....
 - If customers reasonably expect to be updated.



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- For example, you want to meet with me, and I tell you I will be in the office tomorrow.
 - If I change my mind, you would expect to be updated.
 - Not to tell you is deception.
 - I cause you to believe something I know is false.
- However, customers don't expect to be updated about the quality of padding.
 - We are assuming the company has never promised high-quality padding.



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The question in the case of the furniture is whether the customer would expect to be updated about the quality of the material. Of course, if there is tag on the furniture that lists the specifications about the stuffing, then yes, you would expect to be updated. But we are assuming that no such specifications appear. We are assuming that the company has never claimed, in any way, anything about the quality of the stuffing. So if you walk into the furniture store, would you expect the salesperson to say, “Let me tell you, before you come in, that we have changed the quality of the stuffing”? Some salespeople might do so, but would you expect it? No. We don’t expect it.

It’s true that the company created its good reputation. The company caused you to believe that the quality is high, by manufacturing high quality sofas in the past. The company caused you to believe this. But at the time it was manufacturing high-quality sofas, they were, in fact, high-quality sofas. The manufacturers weren’t causing you to believe something they knew was false when they actually created the high-quality sofas. So there’s no clear case for deception.

We can’t get them on that point, but suppose we apply the generalization test directly to their decision about the quality of the merchandise. Even if we grant that there’s no deception involved, maybe there’s another problem.

Suppose that companies always reduce the quality of their merchandise in an economic downturn, without telling the customer. What would happen? Customers would catch on. If you walked into a furniture store during a recession, you would know that they have gone on the cheap, because companies always do this. You’re going to be less likely to pay the same price for the furniture. Sales are going to drop, because people would know the quality is lower.

How about the generalizability of the company’s decision? It depends upon the reason. If the company’s reason is simply to cut production cost, would they still be able to cut production cost if everyone else did it? Sure. They wouldn’t sell as many sofas, but they would nonetheless cut production cost. So it’s generalizable. If their reason is simply to cut production cost, then we are OK. It’s generalizable. However, I think that’s not the whole reason. Part of the reason is that they want to cut production cost *and* maintain sales. That’s why they’re not saying anything about it. That’s not generalizable, because if everyone did that, they would not be able to maintain sales. Customers would be wise to it. So they can get away with this only if their reason this simply to cut production cost, even if sales drop.




Cheap stuffing

- Apply generalization test directly to the decision to reduce quality.
 - Suppose companies always reduce quality in hard economic times when they want to cut costs.
 - Customers would catch on.
 - Would the company still be able to cut costs?
 - Yes.
 - Even though sales would probably decrease.
 - So the decision is generalizable under the rationale of cutting costs.

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Cheap stuffing


- However, suppose the company’s rationale is to cut costs **and** maintain sales.
 - The decision is **not** generalizable.
- So reducing the quality is generalizable only if the rationale is solely to cut costs.
 - That is, the company can ethically reduce quality (without alerting customers) if it **would still be willing to reduce quality if this caused sales to fall to the level that would result if all sellers did the same.**

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So what we have to say is that their reasons generalize if they would still be willing to reduce the quality without saying anything, if sales were to drop to the same extent they would drop if all other merchants did the same thing. Got that? I'm going to read the slide, because it's a bit hard to follow. The company can ethically reduce quality, without alerting customers, if the company would still be willing to reduce quality if this caused sales to fall to the level that would result if all sellers did the same. If that's true – if the company would still do it even under that condition – then the reason is simply to cut production cost, and the action is generalizable. That's how you tell. The conclusion is a bit complicated, isn't it?

That's today's session. Next time, we are going to look at some business case studies. See you then.



Next

- Business case studies

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