Making Ethical Decisions

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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?

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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

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

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• Successful leaders tend to be more sophisticated in ethical reasoning.
Myths and misconceptions

• **Myth 2**: We all know what’s right. It’s just a matter of doing it.
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

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

• **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**.
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

• The prior question for business ethics:
  – What are the ethical duties of the owners?
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.
Myths and misconceptions

• The prior question for business ethics:
  – 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

- I am deciding that anyone who has these reasons should steal a watch.
  - Otherwise they aren’t reasons after all.
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.