Business Ethics Tutorial

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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 ≠ 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?
Why ethics?

• 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
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.
Some myths

- **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

• **Myth 2**: Sitting in class doesn’t change behavior. Only incentives change behavior.
Some myths

• **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.
Some myths

• **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.