

# Business Ethics Tutorial

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## Session 3.

# Rational Choice Part II

## 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

# Fiduciary duty

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  - Specifically, an agency agreement.
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  - 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.



# Fiduciary duty

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  - 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.



# Moral agency

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# 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.



# 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.



Be consistent with your goals

# Ultimate goals

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  - You want to achieve some goal or state of affairs.
- Make up your mind what your **ultimate goals** are, and **stick with them** consistently.



# 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.



# The underlying argument

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- The same goes for happiness (positive utility).

# 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**.

# Utilitarian test

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

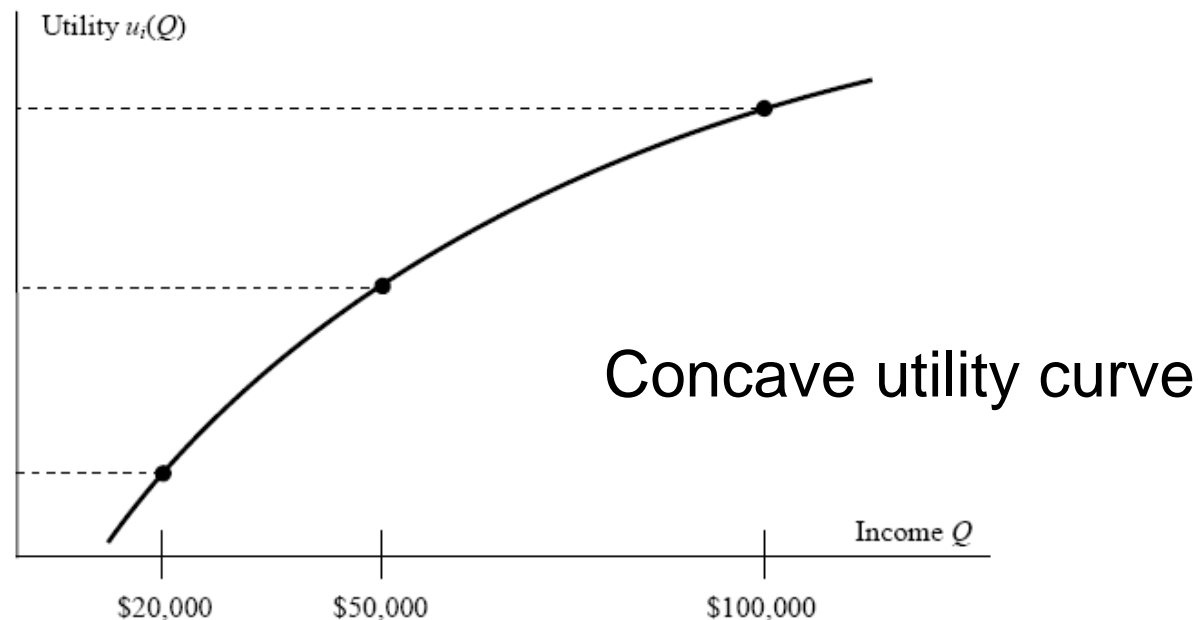
# Measuring utility

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



# Measuring utility

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





## 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.

## Jennifer's job

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***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.

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## 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?

**GLAMOUR**

## 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**

## 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**.



# 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.





## 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.

# Lack of knowledge

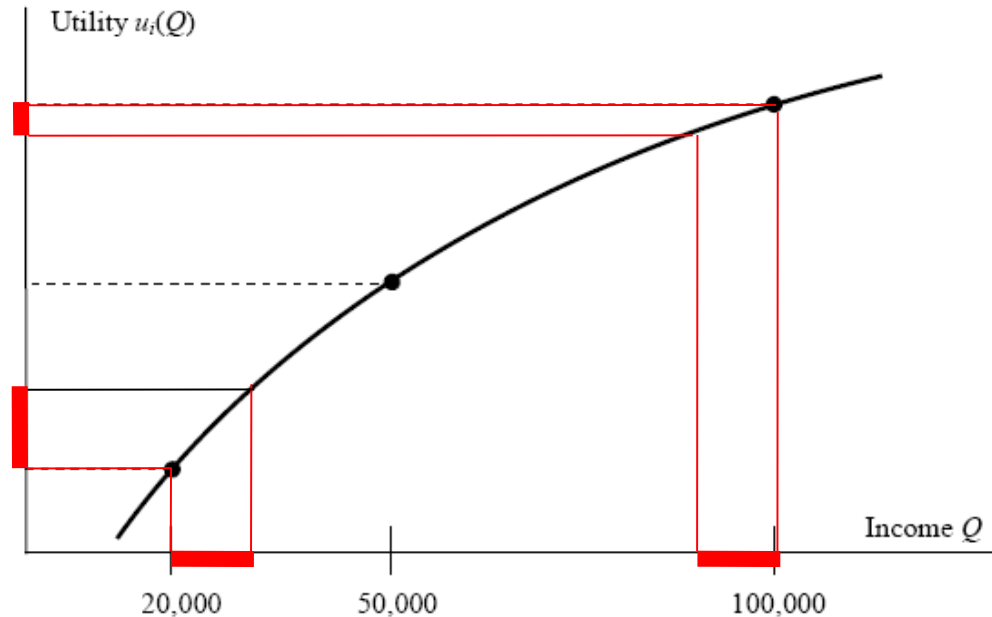
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- The utilitarian test doesn't require omniscience – only rationality.
  - It should be not be **unreasonable to believe** that my action maximizes utility, given the evidence.
  - But I must make a **reasonable effort** to research the issue.
   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



# Charitable contributions?

- Giving to the poor **increases net utility**.
  - The gift is worth more to the poor than to me.

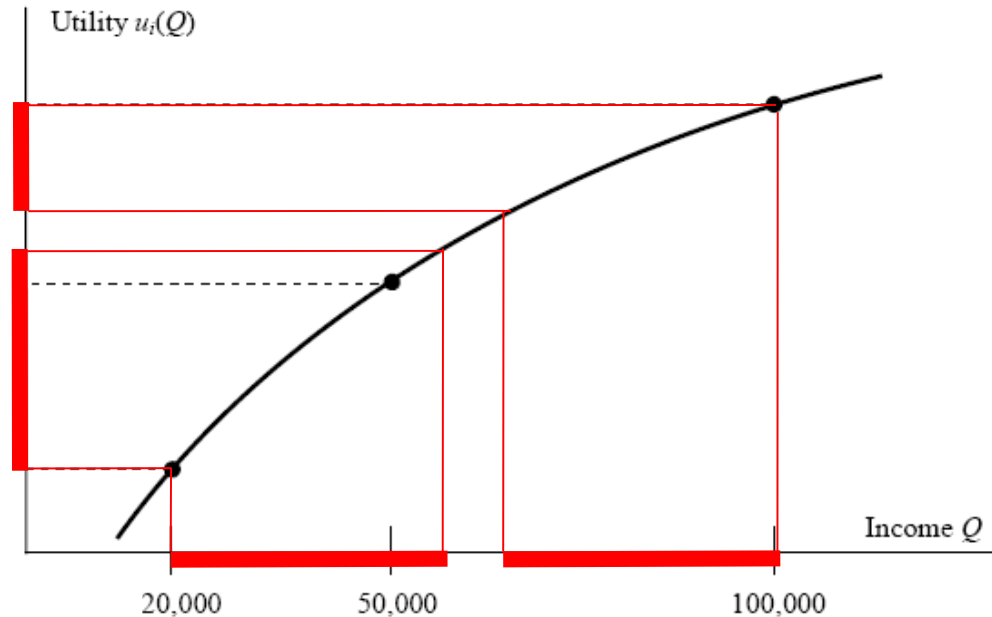
Net utility gain



# 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.

Net utility gain



# 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.

# Charitable contributions?

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



# 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.



# 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.



# 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.



# 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.



Be consistent with who you are

# Virtue ethics

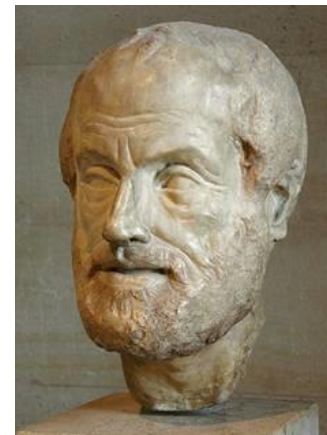
- A rational decision can't come from **nowhere**.
  - It must be based on a larger understanding of our role in the world.
  - We can't decide what to do until we decide **who we are** and **why we're here**.

# Virtue ethics

- A rational decision can't come from **nowhere**.
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  - 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.

# Teleological explanation

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



Aristotle

# 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?

## 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.



# 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.**

# Integrity

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



## 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.

# Jennifer's job

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



## Next

- Some examples from everyday life