Business Ethics Tutorial

J. N. Hooker
Tepper School of Business
Carnegie Mellon University
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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

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

• The prior question for business ethics:
  – What are the ethical duties of the owners?
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.
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.
Moral agency

• **Why** must actions have reasons?
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**.
Moral agency

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  – Human actions are moral agents when their behavior can also be plausibly explained as based on reasons.
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

• An action is a means to an end.
  – You want to achieve some goal or state of affairs.
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

- 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.
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 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.

Concave utility curve
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

• So signing with Glamour passes the utilitarian test.
Jennifer’s job

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• But... it must satisfy the other two conditions of rational choice.
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.
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?
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...
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

• 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.
Charitable contributions?

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