Business Ethics Tutorial

J. N. Hooker

Tepper School of Business
Carnegie Mellon University
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Business Case Studies
Part II
Business case studies

- Super-size me
- The Bullard Houses
- Conoco’s “green” oil strategy
Super-size me

- This 2004 film examined health effects of McDonald’s food.
  - Morgan Spurlock ate nothing but McDonalds for a month.
    - He gained 24 pounds.
    - Reported other negative health effects.
  - Film suggests that McDonalds menu & marketing contribute to U.S. obesity epidemic.
Super-size me

• The issues
  – Is the McDonalds menu ethical?
  – Is its aggressive marketing to children ethical?

• Assumption
  – The ingredients, fat, and caloric content of the food are fully disclosed to customers.
Super-size me

• Common arguments
  – Anti-McDonalds
    – McDonalds causes harm by selling unhealthy food.
    – McDonalds entices children with toys, etc., and gets them hooked on junk food.
  – Pro-McDonalds
    – McDonalds isn’t responsible for what consenting adults choose to eat.
    – McDonalds offers salads.
    – Parents are responsible for their kids.
Super-size me

• Issue 1. The McDonalds menu
• Utilitarian test
  – This is the key test.
  – The utility effect of the McDonalds menu is a question of fact, not ethics.
    – Questions of fact are resolved by research.
    – To pass the test, McDonalds must be rational in believing that its menu maximizes utility, including health effects.
    – This requires some research.
Super-size me

• Utilitarian test
  – I will **assume** the menu could be adjusted to increase utility, at least marginally.
  – For example, by using less high-fructose corn syrup in the hamburger buns.
  – I am **not** assuming that McDonalds causes obesity.
  – I am **not** assuming McDonalds does more harm than good.
  – Then McDonalds fails the test.
Super-size me

• Consenting adults
  – But customers choose to eat the unhealthy food.
    – McDonalds is not responsible for their choices.
  – The utilitarian test considers all consequences.
    – Including those mediated by the free choices of others.
    – Consider a pharmaceutical company that markets a miracle cancer cure.
    – It effect is positive only if others freely choose to use it.
    – Similarly, the effect of McDonalds food is negative only if others freely choose to eat it.
  – In either case, the effects are part of the utilitarian calculation.
Super-size me

• Consenting adults
  – This doesn’t say McDonalds is “responsible” for the choices of others.
    – McDonalds passes the test even if some customers voluntarily destroy their health with Chicken McNuggets.
  – So long as overall utility is maximized.
Super-size me

- Too much Puritanism?
  - It’s OK for a mom-and-pop restaurant to tempt customers with luscious fudge brownies.
    - The pleasure of occasionally yielding to temptation outweighs the negative health effects.
  - But McDonalds is ubiquitous.
    - The temptation reduces total utility.
    - Success brings greater responsibility.
Super-size me

• Issue 2. Marketing to children
  – Some rather aggressive techniques.
    – Not just toys in happy meals, play areas.
    – Marketing experts observe kids while nagging their parents.
    – The successful nagging techniques are demonstrated in ads.
Super-size me

• Issue 2. Marketing to children
• Utilitarian test
  – We still have a problem here.
    – Parents are responsible for their kids, but McDonalds fails the utilitarian test for the same reason as before.
Super-size me

• Autonomy
  – Is it OK to manipulate kids psychologically?
    – Suppose the ads persuade kids to eat broccoli or do their homework.
    – Kids don’t have full autonomy in the first place.
    – Parents must “manipulate” kids to raise them…
    – With goal of developing autonomous (ethical) adults.
    – Advertising *could* frustrate this goal, but perhaps not in McDonalds case.
Super-size me

• Generalization test
  – Sufficiently intrusive ads, if generalized, could undermine the family structure that makes the ads effective.
    – Kids are saturated with on-screen messages that are hard for parents to control.
    – Schools displace parental influence but must take commensurate responsibility.
    – Advertisers are unwilling and probably unable to take on this responsibility.
Super-size me

• Conclusions
  – The McDonalds menu is unethical if an adjustment would at least marginally increase total utility.
    – Even though customers freely choose to eat what they eat.
    – Even though salads are on the menu.
Super-size me

• Conclusions
  – Current marketing to children is unethical...
    – If it creates more overall harm than benefit for children, even though parents are responsible for what their children eat.
    – Or if it is sufficiently intrusive that, if it were general practice, would undermine the family structure on which it relies for effectiveness.
The Bullard Houses

- Bullard Houses are neglected townhouses in the center city.
  - The Bullard Family will sell them to a developer.
    - Conrad Milton wants to include them in a high-rise hotel development.
    - The Bullard Family wants to preserve their original character (no further commercial development), and says so in negotiation.
The Bullard Houses

• Bullard Houses are neglected townhouses in the center city.
  – Absentia is a blind trust negotiating on behalf of Conrad Milton.
  – It has instructions not to reveal the Milton’s identity or development plans.
The Bullard Houses

• The dilemma
  – Case 1. The Bullards specifically ask about the development plans.
    – How should Absentia respond?
  – Case 2. The Bullards don’t specifically ask.
    – Is it OK for Absentia to say nothing about this?
  – The Bullards could insert a clause in the contract…
    – But they don’t.
The Bullard Houses

- Good faith sales negotiation
  - Each party should:
    - Tell the other exactly what will be conveyed.
    - Provide enough information about the items conveyed to allow the other party to assess their worth.
    - Avoid deceiving the other party.
  - However, both parties should:
    - Conceal information about what is acceptable to them.
    - The amount and nature of concealment depends on the context.
    - This is not deceptive, because both parties know it is going on.
Case 1.

- The Bullards ask about development plans.
- One response:
  - No commercial development, no plans so far, we don’t know.
  - These are out-and-out lies.
  - They deceive the other party. Unethical.
- Another response:
  - We’re not at liberty to say.
  - At least it’s true.
  - Is it enough? See Case 2…
The Bullard Houses

Case 2: The Bullards don’t specifically ask.

- There is no obligation for Absentia to reveal what the property is worth to its client.
  - In particular, no obligation (imposed by the possibility of negotiation) to reveal development plans.
  - In fact, there is an obligation not to reveal much about this.

- But is there deception?
  - Does Absentia’s failure to speak up cause the Bullards to believe there are no commercial development plans?
  - Absentia must reasonably believe that it does not.
The Bullard Houses

- Virtue ethics
  - Complex negotiations may require developing a personal relationship with the negotiators.
    - In this context, failure to reveal a crucial fact could be inauthentic.
    - This kind of betrayal is a breach of loyalty.
The Bullard Houses

• Conclusions
  – If the Bullards ask about commercial development plans,
    – Absentia representatives must respond honestly, at least by divulging that they are not at liberty to say.
  – Absentia representatives must reveal the development plans…
    – If the Bullards would reasonably expect them to do so.
    – Or if failure to do so would betray a relationship developed with the Bullard negotiators.
    – Even though the Bullards have not asked for a nondevelopment clause in the contract.
Conoco’s “green” energy strategy

• Late 1980s: Conoco (now ConocoPhillips) began drilling in the Ecuadorian rain forest.
  – 35% of a consortium.
  – Petroecuador would receive 80% of profits, after recovery of investment costs.
Conoco

- Conoco focused on Block 16
  - In Yasuni National Park.
Conoco

San Rafael Falls, Yasuni National Park
Conoco

- Environmental problems
  - Past drilling:
    - 17 million gallons of oil spilled.
    - 4 millions of hazardous waste dumped in rivers every day.
    - Toxic drilling mud buried.
Conoco

- Environmental problems
  - Access roads allowed landless peasants to settle in the national park.
  - They cleared large areas of the forest.
  - Biodiversity threatened.
Conoco

- Cultural issues
  - Home of Huaorani people
    - Little affected by outside contact.
    - Sierra Club spoke of “ethnocide.”
Conoco

- Conoco’s plan
  - Minimize environmental damage.
  - Increase investment 5-10%.
  - Could avoid greater cost is controls later imposed.
Conoco

- Conoco’s plan
  - Hazardous wastes
    - Collection and treatment
    - Reuse and safe deposit of drilling mud.
Conoco

- Conoco’s plan
  - Access
    - Guards posted.
    - Access by ferries rather than bridges.
    - Employees not permitted to trade with Huaorani or fish on their land.
  - Presented plan to environmental and other interest groups in 1990.
Conoco

• Subsequent events
  – Sold Block 16 operations to Maxus Corporation.
    – Due to opposition from indigenous and environmental groups.
  – YPF (Argentina) bought out Maxus.
Conoco

- Subsequent events.
    - Bought Burlington Resources.
    - Drilling rights in 2 blocks.
Conoco

- Subsequent events
  - Drilling on hold.
    - Due to local and international opposition.
Conoco

• The issues
  – Environmental
    – What are a corporation’s obligations to protect the environment?
    – Beyond that required by law.
  – Cultural
    – Is there an obligation to protect indigenous cultures?
Conoco

• Government’s role.
  – This is not the issue.
  – Even if government has responsibility, private business may also have responsibility.
  – Particularly if the government doesn’t act.
Conoco

• Utilitarian test
  – Simple in principle
    – Pollution is wrong if it does more harm than not polluting.
    – To others as well as to the corporation.
    – This is a question of fact, not ethics.
Conoco

• Utilitarian test.
  – “If I don’t do it, someone else will.”
    – Conoco may be driven out by competition if it spends too much on pollution control.
    – Pollution to the extent necessary to stay in business passes utilitarian test (perhaps not other tests).
    – Apparently not much pollution is necessary to stay in business (5-10% cost of cleanup).
    – But let’s suppose significant pollution is necessary for Conoco to remain competitive.
    – Does it pass other tests?
Conoco

- Generalization test.
  - Weak regulation
    - Conoco’s practices would be illegal in its own country, and in most economically developed countries.
    - What does this prove?
  - It may prove ungeneralizability.
    - Without these laws, environmental decline would lead to economic decline.
    - Conoco relies on the world economy for profitability.
    - Goal of maintaining profitability would not be achieved if its pollution level were generalized.
Conoco

• Ethnocide
  – 19th century U.S. view:
  – Indigenous people should be absorbed in Western culture

Carlisle Indian School, PA
First school of its kind in USA
Conoco

• Ethnocide
  – Today’s view
    – Indigenous cultures have intrinsic value.
    – Strong indigenous rights movement, particularly in Ecuador.
Conoco

- Ethnocide
  - Agency
    - Homicide is wrong because it destroys agency.
    - But classical Western ethics regards only individuals as autonomous agents.
  - Communal cultures.
    - These regard community or family as the unit of human existence.
    - Disrupting its existence may be murder (ethnocide), even if individuals are unharmed.
Conoco

- **Virtue ethics**
  - **Professional mission**
    - Conoco personnel may see themselves as making the world better by proving energy.
    - Excessive pollution is contrary to this mission.
  - **Pollution necessary for competitiveness passes utilitarian test.**
    - But it may fail virtue ethics test.
    - Not because people “feel bad” about it, but because of inconsistency.
  - Here, owners and executives may have different obligations.
Conoco

• Conclusion
  – Conoco’s level of pollution is unethical if…
    – It is illegal.
    – Or it is greater than that necessary to remain competitive in the region.
    – Or any profitability gain would be undermined if industries worldwide created a similar level of pollution.
    – Even granting that the government has a responsibility to control pollution.
Conoco

• Conclusion
  – Destruction of an indigenous culture is unethical, even if the individuals in the culture benefit,…
  – If Western ethics is expanded to regard collectives as moral agents when it is culturally appropriate to do so.
References


Mencius (Méng Zǐ), *The Mencius* (孟子), ca. 300 bce.


References


Immanuel Kant, *Critique of Practical Reason* (*Kritik der praktischen Vernunft*), 1788.


References


Ethics resources:  [http://web.tepper.cmu.edu/jnh](http://web.tepper.cmu.edu/jnh)