Instructor's Manual and Test Bank

for

Velasquez

Business Ethics
Concepts and Cases

Seventh Edition

prepared by

Richard Trevisan
Santa Clara University

Victor Heller
University of Texas at San Antonio

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Preface

This Instructor's Manual will help instructors to use the 7th edition of Manuel G. Velasquez' *Business Ethics Concepts and Cases* text book. The manual provides materials designed to assist instructors in presenting central concepts, preparing instructional materials, leading classroom discussions, and organizing other learning activities. Additions to this edition's Instructor's Manual are *Extra Resources* in the form of documentary videos and websites.

The Instructor's Manual follows the chapter structure of the textbook. For each chapter, instructors will find the following instructional aides.

Chapter Overview – This section provides a summary of what is covered in the chapter, pointing out the themes, ideas, and concepts that the chapter emphasizes. This section will help instructors organize a presentation of the chapter

Extra Resources – Numerous published videos have been identified to emphasize certain points for each chapter. In addition, other websites and You Tube videos have been identified for the same purposes. However, there is no guarantee that these websites or YouTube videos will continue to be active.

Questions for Class Discussions – This section provides questions that are intended to stimulate student interaction with and involvement in the topics covered by the chapter. Instructors should, of course, feel free to adapt them to suit the interests and skill levels of their students.

Activities and Assignments – This section includes suggestions for additional individual and group activities, both in and out of the classroom.

Chapter Quiz Question – This section is designed to provide the instructor with chapter quiz questions on the readings..

Prentice Hall also provides a Companion Website that offers additional instructional materials: an overview of each chapter, a list of key terms and definitions, self-evaluation questions, and Web destinations. Instructors may wish to consult the site themselves and/or to direct their students to make use of the site: http://www.prenhall.com/Velasquez.

CHAPTER ONE
Ethics and Business

Overview

Introduction

This chapter presents an introduction to the basic principles of ethics in general and shows how these principles are relevant to businesses. It begins with a case study of Merck and Company, discussing how they dealt with the problem of developing a drug that was potentially life-saving but which presented them with little, if any, chance of earning a return on their investment.

The drug was Ivermectin, one of their best-selling animal drugs. The potential market for the drug was those suffering from river blindness an agonizing disease afflicting about 18 million impoverished individuals in Africa and Latin America. The disease is particularly horrendous: worms as long as two feet curl up in nodules under an infected person's skin, slowly sending out offspring that cause intense itching, lesions, blindness, and ultimately death (though many sufferers actually commit suicide before the final stage of the disease).

The need for the drug was clear. However, the victims of river blindness are almost exclusively poor. It seemed unlikely that Merck would ever recoup the estimated $100 million it would cost to develop the human version (named Mectizan) of the drug. Moreover, if there proved to be adverse human side effects, this might affect sales of the very profitable animal version that were $300 million of Merck’s $2 billion annual sales. Finally, Congress was getting ready to pass the Drug Regulation Act, which would intensify competition in the drug industry by allowing competitors to more quickly copy and market drugs originally developed by other companies.

Question: Was Merck morally obligated to develop this drug?

Their managers felt, ultimately, that they were. They even went so far as to give the drug away for free. This story seems to run counter to the assumption that, given the choice between profits and ethics, companies will always choose the former. The choice, however, may not be as clear-cut as this dichotomy suggests. Some have suggested that, in the long run, Merck will benefit from this act of kindness just as they are currently benefiting from a similar situation in Japan.
Even so, most companies would probably not invest in an R & D project that promises no profit. And some companies often engage in outright unethical behavior. Still, habitually engaging in such behavior is not a good long-term business strategy, and it is the view of this book that, though unethical behavior sometimes pays off, ethical behavior is better in the long run.

A more basic problem is the fact that the ethical choice is not always clear. Merck, as a for-profit corporation, has responsibilities to its shareholders to make a profit. Companies that spend all their funds on unprofitable ventures will find themselves out of business.

This book takes the view that ethical behavior is the best long-term business strategy for a company—a view that has become increasingly accepted during the last few years. This does not mean that occasions never arise when doing what is ethical will prove costly to a company, such as Merck with its VIOXX experience. Such occasions are common in the life of a company, and we will see many examples in this book. Nor does it mean that ethical behavior is always rewarded or that unethical behavior is always punished. On the contrary, unethical behavior sometimes pays off, and the good guy sometimes loses. To say that ethical behavior is the best long-range business strategy means merely that, over the long run and for the most part, ethical behavior can give a company significant competitive advantages over companies that are not ethical. The example of Merck and Company suggests this view, and a bit of reflection over how we, as consumers and employees, respond to companies that behave unethically supports it. Later we see what more can be said for or against the view that ethical behavior is the best long-term business strategy for a company.

This text aims to clarify the ethical issues that managers of modern business organizations must face. This does not mean that it is designed to give moral advice to people in business nor that it is aimed at persuading people to act in certain moral ways. The main purpose of the text is to provide a deeper knowledge of the nature of ethical principles and concepts and an understanding of how these apply to the ethical problems encountered in business. This type of knowledge and understanding should help managers more clearly see their way through the ethical uncertainties that confront them in their business lives—uncertainties such as those faced by the managers of Merck.

1.1 The Nature of Business Ethics

According to the dictionary, the term *ethics* has a variety of different meanings. One of its meanings is: "the principles of conduct governing an individual or a group”. We sometimes use the term *personal ethics,* for example, when referring to the rules by which an individual lives his or her personal life. We use the term *accounting ethics* when referring to the code that guides the professional conduct of accountants.

A second—and more important—meaning of *ethics,* according to the dictionary, is: Ethics is "the study of morality." Ethicists use the term *ethics* to refer primarily to the study of morality, just as chemists use the term *chemistry* to refer to a study of the properties of chemical substances. Although ethics deals with morality, it is not quite the same as morality. Ethics is a kind of investigation—and includes both the activity of investigating as well as the results of that investigation—whereas morality is the subject matter that ethics investigates.

This chapter discusses the case of B.F. Goodrich to clarify these definitions. Kermit Vandivier was presented with a moral quandary: he knew that Goodrich was producing brakes for the U.S. government that were likely to fail, but was required by his superiors to report that the brake passed the necessary tests. His choice was to write the false report and go against his ethical principles, or be fired and suffer the economic consequences.

He chose the former, even though his moral standards were in conflict with his actions. Such standards include the norms we have about the kinds of actions we believe are right and wrong, such as "always tell the truth." As Vandivier shows, we do not always live up to our standards. Moral standards include norms we have about the actions we believe are morally right and wrong, as well as the values we place on what we believe is morally good or morally bad.

There are other types of standards as well, such as standards of etiquette, law, and language. Moral standards can be distinguished from non-moral standards using five characteristics:

1. Moral standards deal with matters that can seriously injure or benefit humans. For example, most people in American society hold moral standards against theft, rape, enslavement, murder, child abuse, assault, slander, fraud, lawbreaking, and so on.
2. Moral standards, we feel, should be preferred to other values, including self-interest. This does not mean, of course, that it is always wrong to act on self-interest; it only means that it is wrong to choose self-interest over morality.
3. Moral standards are not established or changed by authoritative bodies. The validity of moral standards rests on the adequacy of the reasons that are taken to support and justify them; so long as these reasons are adequate, the standards remain valid.
4. Moral standards are felt to be universal. People must abide by these standard rules whether they want to or not.
5. Moral standards are based on impartial considerations. The fact that you will benefit from a lie and that I will be harmed is irrelevant to whether lying is morally wrong.
6. Moral standards are associated with special emotions and a special vocabulary (guilt, shame, remorse, etc.). The fact that you will benefit from a lie and that I will be harmed is irrelevant to whether lying is morally wrong.

Ethics is the discipline that examines one's moral standards or the moral standards of a society. It asks how these standards apply to our lives and whether these standards are reasonable or unreasonable—that is, whether they are supported by good reasons or poor ones. Therefore, a person starts to do ethics when he or she takes the moral standards absorbed from family, church, and friends and asks: What do these standards imply for the situations in which I find myself? Do these standards really make sense? What are the reasons for or against these standards? Why should I continue to believe in them? What can be said in their favor and what can be said against them? Are they really reasonable for me to hold? Are their implications in this or that particular situation reasonable?

Taking Vandivier as an example, we might ask if writing the false report was really wrong given his responsibilities to support his family. Moreover, the company, not Vandivier, would be held responsible for any faulty brakes. Finally, as in 5. above, even if he did not cooperate and was consequently fired, the brakes would still be manufactured and installed. The consequences of writing the report or not would be the same, except that if he chose not to participate he would be fired. It is in considering such points that we begin to do ethics.

Ethics is the study of moral standards—the process of examining the moral standards of a person or society to determine whether these standards are reasonable or unreasonable in order to apply them to concrete situations and issues. The ultimate aim of ethics is to develop a body of moral standards that we feel are reasonable to hold—standards that we have thought about carefully and have decided are justified standards for us to accept and apply to the choices that fill our lives.

Ethics is not the only way to study morality. The social sciences—such as anthropology, sociology, and psychology—also study morality, but do so in a way that is quite different from the approach to morality that is characteristic of ethics. Although ethics is *a normative* study of ethics, the social sciences engage in *a descriptive* study of ethics.

Other fields, such as the social sciences, also study ethics; but they do so descriptively, not normatively. That is, they explain the world but without reaching conclusions about whether it ought to be the way it is. Ethics itself, on the other hand, being normative, attempts to determine whether or not standards are correct.

A normative study is an investigation that attempts to reach normative conclusions—that is, conclusions about what things are good or bad or about what actions are right or wrong. In short, a normative study aims to discover what ought to be.

A descriptive study is one that does not try to reach any conclusions about what things are truly good or bad or right or wrong. Instead, a descriptive study attempts to describe or explain the world without reaching any conclusions about whether the world is as it ought to be.

Business ethics is a specialized study of right and wrong applied to business policies, institutions, and behaviors. This is an important study since businesses are some of the most influential institutions within modern society. Business organizations are the primary economic institutions through which people in modern societies carry on the tasks of producing and distributing goods and services. They provide the fundamental structures within which the members of society combine their scarce resources—land, labor, capital, and technology—into usable goods, and they provide the channels through which these goods are distributed in the form of consumer products, employee salaries, investors' return, and government taxes. Today large corporate organizations dominate our economies.

Though business ethics cover a variety of topics, there are three basic types of issues:

1. *Systemic issues* – questions raised about the economic, political, legal, or other social systems within which businesses operate. These include questions about the morality of capitalism or of the laws, regulations, industrial structures, and social practices within which American businesses operate.
2. *Corporate issues* – questions raised about a particular company. These include questions about the morality of the activities, policies, practices, or organizational structure of an individual company taken as a whole.
3. *Individual issues* – questions about a particular individual within an organization and their behaviors and decisions. These include questions about the morality of the decisions, actions, or character of an individual.

Some theorists maintain that moral notions apply only to individuals, not to corporations themselves. They say that it makes no sense to hold businesses "responsible" since businesses are more like machines than people. Others counter that corporations do act like individuals, having objectives and actions, which can be moral or immoral just as an individual's action might be.

In 2002, for example, the Justice Department charged the accounting firm of Arthur Andersen for obstruction of justice. Arthur Andersen was caught shredding documents showing how they helped Enron hide its debt through the use of several accounting tricks. Critics afterward claimed that the Justice Department should have charged the individual employees of Arthur Andersen, not the company, because "Companies don't commit crimes, people do."

Perhaps neither extreme view is correct. Corporate actions do depend on human individuals who should be held accountable for their actions. However, they also have policies and culture that direct individuals, and should therefore be held accountable for the effects of these corporate artifacts.

Nonetheless, it makes perfectly good sense to say that a corporate organization has moral duties and that it is morally responsible for its acts. Corporate policies, corporate culture, and corporate norms all have an enormous influence on the behavior of corporate employees. This is not to say that those human beings who make up a corporation are not influenced by each other and by the corporate environment.

However, organizations have moral duties and are morally responsible in a secondary sense; a corporation has a moral duty to do something only if some of its members have a moral duty to make sure it is done, and a corporation is morally responsible for something only if some of its members are morally responsible for what happened.

There are those that object to the application of ethics in business based on three arguments, which are shown here in italics with a criticism of each argument.

1. *In a free market, the pursuit of profit will ensure maximum social benefit.*
    a. First, most markets are not perfectly competitive markets
    b. Second, the argument assumes that any steps taken to increase profits will necessarily be socially beneficial. Companies pursuing profit and using unethical practices can hardly be called competitive. For example, polluting our environment at the same time can hardly be called ethical. The same goes for price fixing, tax evasion, deceptive advertising, fraud, bribery and concealing product hazards. When these practices are in play, the market is not freely competitive.
2. *A manager's most important obligation as an agent is loyalty to the company regardless of any ethical issue*.
    a. The loyal agent's argument assumes that there are no limits to the manager's duties to serve the employer when, in fact, there are, i.e., the law of agency states "…, in no event would it be implied that an agent has a duty to perform acts which are illegal or unethical."
    b. Agreements do not change the moral character of wrongful acts nor does the argument "I was following orders" justify them.
3. *So, as long as the companies obey the law, they will have done all that ethics requires.*
    a. Our pre-civil war slavery laws were contrary to any form of moral mandate.
    b. The laws of Nazi Germany required anti-Semitic behavior.
    c. Goldman Sachs helped Greece hide loans larger than European Union rules allowed by disguising them as currency exchanges that did not have to be disclosed. The Goldman Sachs managers were in effect saying if it was legal, it was ethical.

There are arguments that support ethics in business. They include:

1. Ethics applies to all human activities.
2. Business cannot survive without ethics.
3. Ethics is consistent with profit seeking.
4. Customer, employees, and people in general care about ethical behavior.
5. Studies suggest that ethics does not detract from profits and seems to contribute to it.

Ethics is sometimes confused with corporate social responsibility (CSR). Corporate social responsibility refers to a corporation's responsibilities or obligations toward society. There are disagreements in business as well as in the academic world about what those obligations include. The conflict is between the two sides that ask: do companies have a responsibility to donate to charities or to give their employees higher wages and customers' safer products? Or is the company obligated to maximize profits for their shareholders? At the heart of this is the question: What is the purpose of business?

The late Milton Friedman argued that in a “free enterprise private property system” the corporate executives work for the owners (shareholders) and must run the company in accordance with their desires, which is usually to ethically and legally make as much money as possible. He went on to say that businesses are obligated only to the stockholders and that owners have the *right* to say how the corporation should be run because they own the corporation so managers are *obligated* to do what the stockholders want. Further, a manager has no right to give company money to social causes when doing so will reduce shareholder’s profits. Managers can pay higher wages to employees or provide better products for customers, or give money to local community groups or other causes, if in doing so will make profits for the shareholders.

Friedman has many critics. They claim that the manager is an employee of the corporation, not the shareholders. So, the executive is bound to serve the interests of his true employer, not the shareholders. Secondly, the shareholders have limited rights such as the right to elect the board of directors, the right to vote on major company decisions and right to whatever remains after the corporation goes bankrupt and pays off its creditors. Third, the executive’s responsibility, as Friedman claims, is to run the corporations as the stockholders want the company to be run. In reality the executive probably has no idea how stockholders want the company to be run. He/she really is required to run the company in ways that serve many other interests (including employee and consumer interests) besides those of the shareholders. Lastly, Friedman’s claim that when companies maximize shareholders’ returns, society will best be served is not always socially beneficial. Sometimes competitive forces steer companies in a socially harmful way.

A very different view is that of a “stakeholder’s theory”. Two scholars, Edward Freeman and David Reed, pioneered this view. Any identifiable group or individual who can affect the achievement of an organization’s objectives or who is affected by the achievement of an organization’s objectives is a stakeholder. In other words, a stakeholder has a stake in the company. A company should be run for the benefit of *all stakeholders*. This is based on two supporting arguments, *instrumenta*l and *normative* arguments. Instrumentally, if a company takes all stakeholders’ interests into account, they will be disposed to do their part to support the company and its interests. From a normative viewpoint, and out of *fairness*, the company is ethically obligated to be responsive to all stakeholders. All of these concepts – *rights, obligations,* and *fairness* are ethical concepts so ethics is not only part of a company’s responsibilities. Ethics also provides the basic normative reasons for corporate social responsibility.

Which approach is correct, shareholder or stakeholder? Many businesses accept the stakeholder theory, and most of the fifty U.S. States have passed laws that recognize business’ obligations to its many stakeholders, even at the expense of stockholder interests.

1.2 Ethical Issues in Business

Technology consists of all those methods, processes, and tools that humans invent to manipulate and control their environment. This has challenged contemporary business and societies are transformed by the rapid evolution of new technologies. This presents new ethical issues for business.

Throughout history, there have been technological changes from the agricultural revolution at the beginning of mankind, to the industrial revolution in the eighteenth century, to new technologies presenting themselves at the end of the 20th century. The more recent technologies included: information, nano and genetic technologies transforming society and business and creating the potential for new ethical problems. They bring with them *questions of risks*, which may be unpredictable and/or irreversible. Who should decide whether the benefits of a particular technology are worth the risks? How will victims of bad technology be compensated for their loss? How will risk be distributed? How will privacy be maintained? How will property rights be protected?

And what about the question of property rights as related to information technologies. What kind of rights does the original creator of the information have and how does it differ from the property rights of someone who buys a copy? Is it wrong for me to use my company's computer system for personal business or to log onto websites that have nothing to do with my work?

Virtually all of the 500 largest U.S. industrial corporations today are multinationals. Operating in more than one country at once produces a new set of ethical dilemmas. For example, multinationals can escape environmental regulations and labor laws by shifting to another country. They can shift raw materials, goods, and capital so that they escape taxes. In addition, because they have new technologies and products that less developed countries have, multinationals must decide when a particular country is ready to assimilate these new things. They are also faced with the different moral codes and laws of different countries. Even if a particular norm is not unethical, they must still decide between competing standards in their many operations.

Many issues that arise in business are related to the phenomenon of globalization. This refers to the way nations are becoming connected so that goods, services, capital knowledge, and cultural artifacts move across national borders at an increasing rate. The volume and rate of transfer across borders has transformed the face of our world.

Multinational Corporations are at the heart of this process. Multinational corporations are companies that have manufacturing, marketing, service, and administrative operations in many different nations. They market their products in whatever nations offer manufacturing advantages and attractive markets. They draw capital, raw materials, and human labor from wherever in the world they are cheap and available. All of the 500 largest U.S. industrial corporations are multinationals.

Globalization has brought the world many benefits as the recognized name brands like Nike, Motorola, General Electric and Ford build factories and establish assembly operations in countries with low labor costs. They bring jobs, skills, income, and technology to regions of the world that were formerly underdeveloped, raising the standards of living for these countries and providing low priced goods.

But globalization has been blamed for inflicting significant harms on the world as well. Critics claim it has benefited developed nations but have left behind many poorer nations that only have cheap agricultural products to trade. Additionally, multinationals have brought Western culture everywhere through movies, books, songs, games, toys, television show, electronic gadgets, dances, fast foods, brands, art, magazines and clothes, driving out distinctive local cultures and traditions that are in danger of diminishing or disappearing altogether.

Critics have also said that multinationals can now pull their operations out of one country and insert them into another that offers cheaper labor, less stringent laws and lower taxes.

They play one nation against another that has created a “race to the bottom.”

In addition, globalization has caused serious dilemmas for multinational managers. Forcing the managers to deal with host countries whose laws, government practices, levels of development and cultural understanding are sometimes much different than those from which the multinational’s managers are familiar. Laws being different in foreign countries, the multinational manager is faced with customs that may force the manager into making the decision on which standards to adhere to, his home country’s or the host country’s. But having a blanket rule to go along with local practices as well as one that always tries to adhere to the higher standards of developed nations are both inadequate. Instead, managers who want to operate ethically in foreign countries must judge each case as it comes along. In some cases the choice may be to choose between staying in a country and going along with a local practice that is clearly and seriously evil, or doing what is right and leaving the country.

Ethical relativism is the theory that, because different societies have different ethical beliefs, there is no rational way of determining whether an action is morally right or wrong other than by asking whether the people of this or that society believe it to be right or wrong by asking whether people of a particular society believe that it is. In fact, the multiplicity of moral codes demonstrates that there is no one "right" answer to ethical questions. The best a company can do is follow the old adage, "When in Rome, do as the Romans do." In other words, there are no absolute moral standards.

Critics of ethical relativism point out that it is illogical to assume that because there is more than one answer to an ethical question that both answers are equally correct or even that either answer is correct. They also maintain that there are more similarities than differences even among what seem to be very divergent societies.

The late Philosopher James Rachels put the matter quite succinctly:

> The fact that different societies have different moral codes proves nothing. There is also disagreement from society to society about scientific matters: in some cultures it is believed that the earth is flat, and evil spirits cause disease. We do not on that account conclude that there is no truth in geography or in medicine. Instead, we conclude that in some cultures people are better informed than in others. Similarly, disagreement in ethics might signal nothing more than that some people are less enlightened than others. At the very least, the fact of disagreement does not, by itself, entail that truth does not exist.
>
> Why should we assume that, if ethical truth exists, everyone must know it?

However, the most telling criticisms of the theory point out that it has incoherent consequences. For example, it becomes impossible to criticize a practice of another society as long as members of that society conform to their own standards. How could we maintain that Nazi Germany or pre-Civil War Virginia were wrong if we were consistent relativists? There must be criteria other than the society's own moral standards by which we can judge actions in any particular society. Though we should not dismiss the moral beliefs of other cultures, we likewise should not conclude that all systems of morality are equally acceptable.

This leads to a discussion of a framework called”Integrative Social Contracts Theory” (ISCT). According to this way of looking at moral standards in different societies, there are two kinds of moral standards (1) Hypernorms which consist of moral standards that should be applied to people in all societies, and (2) Microsocial norms which are those norms that differ from one community to another and that should be applied to people only if their community accepts those particular norms. Microsocial norms can be thought of as part of a social contract that the members of a society has accepted. Examples are:

1. Hypernorms – might be human rights principles and principles of justice that apply to all people in all communities.
2. Microsocial - one example is the norm when traveling a married woman must be accompanied by her husband or a male relative, a norm that is practiced in Saudi Arabia and several other Arab countries but not in the United States nor in Europe.

ISCT claims that hypernorms take priority over microsocial norms.

Moreover, according to ISCT, when a manager is operating in a foreign community, the manager should follow the microsocial norms of that community, so long as they do not violate any hypernorms. If the microsocial norms of a community violate a hypernorm, then the manager should not follow that microsocial norm.

1.3 Moral Reasoning

This section investigates how we examine our own moral standards and apply them to concrete situations and issues. It first looks at the process of moral development itself.

We sometimes assume that a person's values are formed during childhood and do not change. In fact, a great deal of psychological research, as well as one's own personal experience, demonstrates that as people mature, they change their values in very deep and profound ways. Just as people's physical, emotional, and cognitive abilities develop as they age, so also their ability to deal with moral issues develops as they move through their lives.

Lawrence Kohlberg identified six stages of moral development: Moral rights

Level One: Pre-conventional Stages

1. Punishment and Obedience Orientation - At this stage, the physical consequences of an act wholly determine the goodness or badness of that act. The child's reasons for doing the right thing are to avoid punishment or defer to the superior physical power of authorities. There is little awareness that others have needs similar to one’s own.
2. Instrument and Relativity Orientation- At this stage, right actions become those that can serve as instruments for satisfying the child’s own needs or the needs of those for whom the child cares.

At these first two stages, the child is able to respond to rules and social expectations and can apply the labels good, bad, right, and wrong. These rules, however, are seen as something externally imposed on the self. Right and wrong are interpreted in terms of the pleasant or painful consequences of actions or in terms of the physical power of those who set the rules.

Level Two: Conventional Stages

Maintaining the expectations of one's own family, peer group, or nation is now seen as valuable in its own right, regardless of the consequences.

1. Interpersonal Concordance Orientation - Good behavior at this early conventional stage is living to the expectations of those for whom one feels loyalty, affection, and trust, such as family and friends. Right action is conformity to what is generally expected in one's role as a good son, daughter, brother, friend, and so on.
2. Law and Order Orientation - Right and wrong at this more mature conventional stage now come to be determined by loyalty to one's own larger nation or surrounding society. Laws are to be upheld except where they conflict with other fixed social duties.

Level Three: Post-conventional, Autonomous, or Principled Stages

1. Social Contract Orientation - At this first post-conventional stage, the person becomes aware that people hold a variety of conflicting personal views and opinions and emphasizes fair ways of reaching consensus by agreement, contract, and due process.
2. Universal Ethical Principles Orientation - At this final stage, right action comes to be defined in terms of moral principles chosen because of their logical comprehensiveness, universality, and consistency.

At these stages, the person no longer simply accepts the values and norms of the groups to which he or she belongs. Instead, the person now tries to see situations from a point of view that impartially takes everyone's interests into account. The person questions the laws and values that society has adopted and redefines them in terms of self-chosen moral principles that can be justified in rational terms.

Kohlberg's own research found that many people remain stuck at an early stage of moral development. His structure implies that later stages are better than the earlier ones. Kohlberg has been criticized for this implication, and for not offering any argument to back it up.

Carol Gilligan, a feminist psychologist, has also criticized Kohlberg's theory on the grounds that it describes male and not female patterns of moral development. Gilligan claims that there is a "female" approach to moral issues that Kohlberg ignores.

Both Gilligan and Kohlberg agree that there are stages of growth in moral development, moving from a focus on the self through conventional stages and onto a mature stage where we critically and reflectively examine the adequacy of our moral standards. Therefore, one of the central aims of ethics is the stimulation of this moral development by discussing, analyzing, and criticizing the moral reasoning that we and others do, finding one set of principles "better" when it has been examined and found to have better and stronger reasons supporting it.

Moral reasoning itself has two essential components: an understanding of what reasonable moral standards require, and evidence or information concerning whether a particular policy, person, institution, or behavior has the features of these moral standards. People often fail to make their moral standards explicit when they make a moral judgment, mainly because they assume them to be obvious. This assumption is not always true, however; often we must retrace a person's moral reasoning to deduce what their moral standards are. Of course, it is not always easy to separate factual information from moral standards.

Moral reasoning refers to the reasoning process by which human behaviors, institutions, or policies are judged to be in accordance with or in violation of moral standards. Moral reasoning always involves three essential components: (a) an understanding of what reasonable moral standards require, prohibit, value, or condemn; (b) evidence or information that shows that a particular person, policy, institution, or behavior has the kinds of features that these moral standards require, prohibit, value, or condemn; and (c) a conclusion or moral judgment that the person, policy, institution, or behavior is prohibited or required, right or wrong, just or unjust, valuable or condemnable, and so on.

To evaluate the adequacy of moral reasoning, ethicists employ three main criteria:

1. Moral reasoning *must be logical*.
2. Factual evidence *must be accurate, relevant, and complete*.
3. Moral standards *must be consistent*.

Inconsistency between moral standards can be uncovered and corrected by examining situation s in which these moral standards require incompatible things. For example, if faced with two standards that that I hold and they come in conflict with each other at some point, the situation will reveal an inconsistency between the two moral standards, meaning I cannot do both.

Consistency refers not only to the fact that one's standards must be able to coexist with each other, but also to the requirement that one must be willing to accept the consequences of applying one's moral standards consistently to others in similar circumstances. The consistency requirement is, in fact, the basis of an important critical method in ethics: the use of counterexamples and hypothetical examples.

This consistency requirement can be phrased as follows:

> If I judge that a certain person is morally justified (or unjustified) in doing A in circumstance C, then I must accept that it is morally justified (or unjustified) for any other person:
>
> (a) To perform any act relevantly similar to A
> (b) In any circumstances relevantly similar to C.

Moral reasoning is only one of the processes that lead up to ethical or unethical behavior. James Rest, a moral psychologist holds the view that four main processes precede ethical action:

1. Recognizing or becoming aware that we are faced with an ethical issue or situation.
2. Making a judgment about what the ethical course of action is
3. Forming an intention or decision to do or not to do what we judge is right.
4. Carrying out or acting on the intention or decision we have made.

These may or may not happen sequentially. However, it is not always easy to distinguish them from each other, especially if they happen simultaneously. Notice that moral reasoning is only concerned with the second process.

When we see a situation, we start to think of what a person is expected to do in that situation. Besides business, legal, and personal frames, we also apply moral frames to situations. Researchers have identified six criteria that we can and do use to decide whether to frame a situation as an ethical situation that calls for ethical reasoning. The six criteria are:

1. Does the situation involve the infliction of serious harm on one or more people?
2. Is the harm concentrated on its victims so that each victim will, or already has, sustained a significant amount of harm"
3. Is it likely that the harm will occur (or has actually occurred?
4. Are the victims proximate, i.e., close or near to us?
5. Will the harm occur fairly soon (or has it already occurred)?
6. Is there a possibility that the infliction of the harm possibly violate the moral standards we or most people accept?

The more of these questions that we answer affirmatively the more "intense" or "important" the situation is for us and the more likely that we will frame it as an ethical situation that calls for the use of ethical standards and ethical reasoning.

1.4 Moral Responsibility and Blame

Moral responsibility is directed not only at judgments concerning right or wrong. Sometimes, they are directed at determining whether a person or organization is morally responsible for having done something wrong. People are not always responsible for their wrongful or injurious acts: moral responsibility is incurred only when a person knowingly and freely acts in an immoral way or fails to act in a moral way.

Ignorance and inability to do otherwise are two conditions, called *excusing condition that* completely eliminates a person's moral responsibility for causing wrongful injury. Ignorance and inability do not always excuse a person, however. When one deliberately keeps oneself ignorant to escape responsibility, that ignorance does not excuse the wrongful injury. A person is morally responsible for an injury or a wrong if:

1. The person caused or helped cause it, or failed to prevent it when he could and should have;
2. The person did so knowing what he or she was doing;
3. The person did so of his own free will.

Ignorance may concern the relevant facts or the relevant moral standards. Generally, ignorance of the facts eliminates moral responsibility. This is because moral responsibility requires freedom, which is impossible in the case of ignorance of the relevant facts. Inability eliminates responsibility because a person cannot have a moral obligation to do something over which he or she has no control. A person is NOT morally responsible for an injury or a wrong if:

1. The person did not cause and could not prevent the injury or wrong;
2. The person did not know he was inflicting the injury or the wrong;
3. The person did not inflict the injury or the wrong of his own free will

In addition to the excusing conditions, there are also four mitigating factors that diminish moral responsibility. They are:

1. Circumstances that minimize (but do not remove) a person's involvement in an act.
2. Circumstances that leave a person uncertain (but not unsure) about what he or she is doing;
3. Circumstances that make it difficult (but not impossible) for the person to avoid

doing it;
4. Circumstances show that the matter involved was of a minor nature

The extents to which these mitigating circumstances can diminish an agent's responsibility depend on the seriousness of the injury. Generally, the more serious the injury, the less the mitigating circumstances will diminish responsibility.

Can there be an ethical business situation that might be called cooperating with evil. Within the modern corporations, responsibility for a corporate act is often distributed among many cooperating parties. If a manager orders something illegal and employees carry out those orders, one party supplies that means and the other carries out the act, another group conceals it. The possible variations on cooperation in an evil act are endless. The determination for responsibility is the same if I knowingly and freely bring about the wrong, even though I rely on other things and people, I am fully morally responsible for the wrongs that I inflict, even though the responsibility is shared by others.

In this case, I cannot hide behind the loyal agent argument. If I knowingly and of my own free will cause an injury, the fact that I was following orders at the time does not change the reality that I fulfilled the three conditions that qualify me as morally responsible for my actions.

Extra Resources

1. "The Dark Side of Chocolate" (2010) is a 47 minute documentary on the slavery of children and others in western Africa, particularly in Ivory Coast. It is available from The International Labor Rights Forum (www.LaborRights.org) at: https://afl.salsalabs.com/o/4058/donate_page/darkside .
2. "The Corporation" (2004) is a 145 minute Documentary on the corporation with interviews of Milton Friedman, Noam Chomsky, Naomi Klein, and many others.
3. "Inside Job" (2011) is a 120 minute documentary on the Wall Street and banking malfeasance that helped create the global financial crisis.
4. "Quiet Rage: the Stanford Prison Experiment" is available for purchase from Prisonexp.org at www.prisonexp.org/documentary.htm or streaming on Google Video and YouTube; "The Milgram Experiment Revisited" (2007) is an ABC Primetime video available at the online abcnews Store, while "Milgram's Obedience to Authority Experiment" (2009) a BBC documentary and "Milgram Experiment" (1962) can both be streamed at YouTube.
5. "Wal-Mart the high cost of low price" (2005) is a 98 minute documentary that uncovers a retail giant's impact on families and communities struggling to fight a goliath. The video tells about a working mother, other company employees, and the owner of a small Missouri family that loses its business after Wal-Mart is given over $2 million to open its doors down the road. Producer/Director Robert Greenwald and Brave New Films . Read more in the director's introduction .
6. A website that describes the work that Merck did when faced with the discovery of the possible medicine that would eradicate river blindness http://www.suite101.com/content/eliminating-river-blindness-a25397
7. A website showing that even corporations that provide altruistic efforts can sometimes engage in what appears to be a different behavior in other situations. The website shows how Merck dealt with the VIOXX product liability lawsuits. http://www.merck.com/newsroom/news-release-archive/corporate/2007_1109.html.

Questions for Class Discussion

1. Why did the officials at Merck finally decide to produce the "river blindness" medicine, even though it seemed unlikely that they would recoup their investment? Should corporations be required to act as Merck did?
2. What is the distinction between ethics and morality? Discuss the different meanings of the word "ethics," and encourage students to come up with examples that elucidate the distinctions between these definitions.
3. What would you have done in Vandivier's case? Is he to blame for any injuries that resulted from the faulty brakes, or are his actions excusable? Are there any mitigating circumstances that lessen his moral culpability?
4. What are the six characteristics that distinguish moral standards? Why is each of them necessary to define moral standards in general?
5. What are the three basic types of ethical issues? Come up with an example of an ethical issue for each type.
6. How do moral obligations apply to business organizations? Can companies be held accountable for what they do, or are the individuals who make up the company the ones we must hold accountable? Discuss the major arguments concerning corporate responsibility.
7. What special ethical issues face multinational corporations? How should they, and society, respond to these issues?
8. What is ethical relativism? What are the difficulties with the theory? What does it have to offer us, even if it seems largely mistaken?
9. What are the three criteria used to evaluate the adequacy of moral reasoning? Have students apply the criteria to a series of moral judgments to evaluate each example's relative adequacy.
10. What are the objections to bringing ethics into business? What are arguments in favor of doing so? Which side is more persuasive?
11. What considerations are relevant when we assign blame for an injurious act? What is the distinction between excusing conditions and mitigating circumstances?
12. When evaluating an ethical dilemma, does the closeness of a stakeholder relationship influence the outcome of how it is dealt with?

Activities and Assignments

1. Using the Merck "river blindness" example, have students in small groups take on the roles of Merck officials and consider the issue themselves. What are the moral standards that support their view? How will they balance their competing responsibilities to society and to their shareholders? This activity would also work with the class as a whole, unless it is too large.
2. Consider a real-life scenario of a large multinational corporation in the face of the special ethical concerns mentioned in the chapter. Assign students (or groups of students) to different corporations and ask them to investigate how their multinational has responded to the issues raised in the chapter. Have them decide, as a group, which firm or firms are more ethical, and see if they can find any correlation between their relative moral level and their profitability.
3. Have students identify some new ethical issues raised by new technologies. Then have them identify the moral standards each issue relates to.
4. Break students up into six different groups, corresponding to the stages of moral development outlined by Kohlberg. You may also form another group enacting Gilligan's ethics of care. Then give the class a series of hypothetical examples and ask each group to respond appropriately, explaining how they determine what the moral thing to do would be.

Quiz Questions: Chapter One

1. According to the dictionary, the term *ethics* has a variety of different meanings. One of its meanings is: The principles of conduct governing an individual or a group.
   a. True
   b. False

Answer: A

2. Moral standards can be distinguished from non-moral standards using the following characteristics:
   a. They deal with matters that can seriously injure or benefit humans.
   b. Are not established or changed by authoritative bodies.
   c. They are based on impartial considerations.
   d. A & C
   e. All the above

Answer: E

3. Ethics is the discipline that examines one's moral standards, or the moral standards of a society.
   a. True
   b. False

Answer: A

4. Though business ethics covers a variety of topics, three basic types of issues are:
   a. Systematic, corporate and public
   b. Systematic, corporate and individual
   c. Individual, group and social
   d. None of the above

Answer: B

5. Ethical relativism is the theory that, because different societies have different ethical beliefs, there is no rational way of determining whether an action is morally right or wrong other than by asking the people of that society what they believe.
   a. True
   b. False

Answer: A

6. Lawrence Kohlberg identified twelve stages of moral development.
   a. True
   b. False

Answer: B

7. To evaluate the adequacy of moral reasoning, ethicists employ the following criteria:
   a. Moral reasoning must be logical.
   b. Factual evidence must be accurate, relevant, and complete.
   c. Moral standards must be consistent.
   d. A & B
   e. A, B & C

Answer: E

8. Producing what the buying public wants may not be the same as producing what the entirety of society needs. The argument is essentially making a normative judgment on the basis of some assumed but unproved moral standards.
   a. True
   b. False

Answer: A

9. The "Loyal Agent Argument" states: An employer would want to be served in whatever ways will advance his or her self-interests. Therefore, as a loyal agent of his or her employer, the manager has a duty to serve his or her employer in whatever ways will advance the employer's self-interests.
   a. True
   b. False

Answer: A

10. Dr. P. Roy Vagelos, Merck's head of research and development, decided to fund the money required to develop Ivermectin to cure river blindness because of its large profit potential.
    a. True
    b. False

Answer: B

11. The Ivory Coast farmers kidnapped young boys to provide a safe place for them to live?
    a. True
    b. False

Answer: B

12. Which chocolate candy maker(s) use morally tainted cocoa beans?
    a. Hershey's Milk Chocolate,
    b. M & M Mars, Inc.
    c.Nestle´ USA
    d. All of the above

Answer: D

13. According to Edward Freeman and David Reed corporate managers are obligated only to the shareholders, and no one else, because they own the corporation.
    a. True
    b. False

Answer: B

14. Microsocial norms take priority over hypernorms.
    a. True
    b. False

Answer: B

15. Richard Scrushy, former CEO of HealthSouth, was convicted of___________?
    a. Defrauding Medicare & falsifying reports
    b. Stealing company property
    c. Bribery, conspiracy and mail fraud
    d. Bigamy

Answer: C