Introduction to Business Ethics:
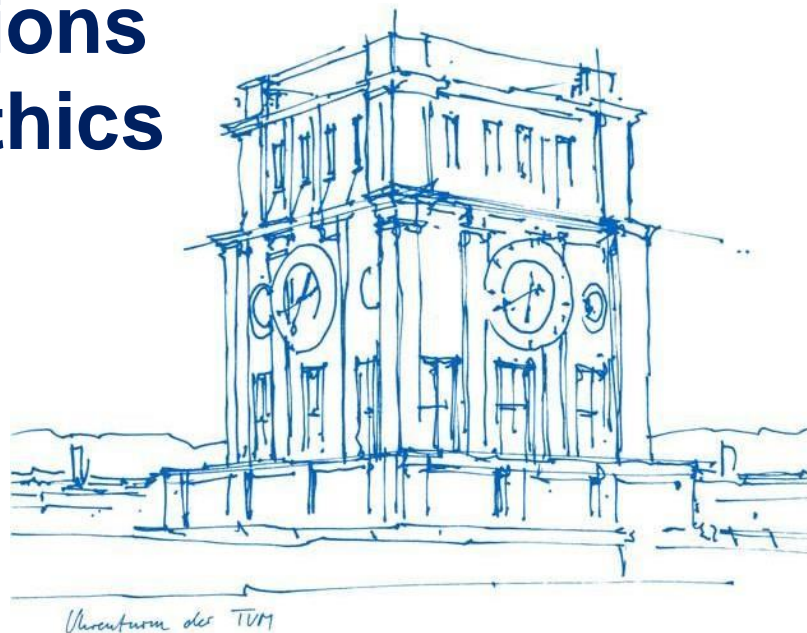## (Philosophical) Foundations and tools of Business Ethics

21. December/10. January 2023

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Winterterm 2022/23

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Focus of today

Introduction

Chapter 1: Business Ethics in the Age of Globalization

Chapter 2: Basic Concepts

Chapter 3: Historical-economic Background: Premodernity and Modernity

Chapter 4: Foundations and Tools of Business Ethics

  ➢ **Philosophical foundations and tools**

Chapter 5: Problem Areas of Business Ethics

Chapter 6: Corporate Ethics

Foundations and Tools of Business Ethics

3.1 Philosophical principles and tools

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An overview of ethical theories

Metaethics	Descriptive Ethics	Normative Ethics	Applied Ethics
• Deals with the meaning of ethical terms, the nature of moral discourse and the foundations of moral principles	• Deals with the description, systematization and explanation of normative systems; a form of empirical research into attitudes of individuals	• Deals with criteria of what is morally right and wrong	• Deals with the application of ethics to real-world problems
e.g.:	e.g.:	Various ethical theories, e.g.:	e.g.:
• What is the meaning of ethical terms such as ‚right' or ‚wrong'?	ethnology, moral psychology, evolutionary biology, behavioral economics	• Virtue Ethics	• Business ethics
• Are there moral facts? Or are moral judgments relative?		• Deontological Ethics	• Medical ethics
		• Consequentialism / Utilitarianism	• Environmental ethics
		• Liberalism	• AI ethics
		• Contractualism	

An overview of ethical theories

Metaethics

- Deals with the meaning of ethical terms, the nature of moral discourse and the foundations of moral principles

e.g.:
- What is the meaning of ethical terms such as ‚right' or ‚wrong'?
- Are there moral facts? Or are moral judgments relative?

Descriptive Ethics

- Deals with the description, systematization and explanation of normative systems; a form of empirical research into attitudes of individuals

e.g.:
ethnology, moral psychology, evolutionary biology, behavioral economics

Normative Ethics

- Deals with criteria of what is morally right and wrong

Various ethical theories, e.g.:
- Virtue Ethics
- Deontological Ethics
- Consequentialism / Utilitarianism
- Liberalism
- Contractualism

Applied Ethics

- Deals with the application of ethics to real-world problems

e.g.:
- Business ethics
- Medical ethics
- Environmental ethics
- AI ethics

Virtue Ethics

Good and happy life = virtuous life

- Goal: Enhancement of certain virtues
- Examples of virtues: Wisdom, justice, courage, moderation
- For example: Aristotle
    - Goal: Happiness (eudaimonia) of human beings
    - Virtue as attitude, determined by rationality and educational background / practice
    - Virtuous life = to find a reasonable mean between two extremes
      For example: Bravery as a golden middle way between daring and cowardliness
    - The golden mean is the best, that can be achieved individually.

Deontological Ethics

- deon = duty or obligation

- "Some choices cannot be justified by their effects […] no matter how morally good their consequences, some choices are morally forbidden" (Stanford Encyclopedia of Philosophy)

- *Action as such* is crucial to evaluate it as good or bad (e.g., intention, conformity with certain rules, duties or rights)

- Calculation of the consequences only additional, not as crucial normative criterion!

Deontological Ethics: Example in Business context

- <u>CSR example</u>: Corporate marketing and PR measures to give a more social or environmentally friendly image.

Is this behavior ethically positive?

- Deontologically: no, because the goal is pure profit maximization.

❯ Deontological ethics does not only look at results for making ethical judgements but also at certain characteristics of the behavior!

Deontological Ethics by Immanuel Kant (1724-1804) (1)

Action is only obligatory if it satisfies the **categorical imperative**:

> *"Act only according to that maxim whereby you can, at the same time, will that it* ***should become a universal law****."*

Test procedure: May I lie / deceive?

- Do we want "lying" to become a generally morally permissible act?

- Example: A person who seeks to borrow money without intending to pay it back. If it were a universal action, no one would lend money anymore as he/she knows that they will never be paid back.

➡ Lying / deceiving is morally unacceptable

Immanuel Kant
Source: Wikipedia

Deontological Ethics by Immanuel Kant (1724-1804) (2)

The **Humanity Formulation of the categorical imperative**:

> *"So act that you use humanity, whether in your own person or in the person of any other, always at the same times as an end, **never merely as a means**."*

- Introduction of the idea of "respect" and "dignity" for individuals

- Humanity is of absolute value, beyond a price

Deontological Ethics: Manifestations in law

Legal basis: Right to life and physical integrity (Art. 2 Basic Law)

Case: Kidnapped plane flying towards a football stadium (evacuation impossible); government has to determine whether or not it should shoot down the plane

Is shooting down the plane ethically justifiable?

NO!	YES!
Deontological: Art. 2 GG must not be violated, no matter how high the damage will be.	**Consequentialist**: minimize harm, life must be balanced against each other.

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The film „The verdict" deals with this question

Drawbacks of Deontological Ethics

Example: Lying is always morally wrong. Even if a murderer asks about the hiding place of his victim, one is obliged to tell the truth.

→Imposed duties seem absurd and contradict inner moral compass

Further critique – implementation issues:

- Can put individuals at risk (e.g., here the victim)

- Issue of value pluralism; clash of different duties (e.g., do not lie and do not kill)

Consequentialist Ethics

- *(Foreseeable) consequences of actions* are crucial to distinguish between good and bad actions: If the consequences are good, the act is right; if the consequences are bad, the act is wrong.

- This theory emphasizes ends over means

Consequentialist Ethics: Example in Business context

- <u>CSR example again</u>: Corporate marketing and PR measures to give a more social or environmentally friendly image.

Is this behavior ethically positive?

- Consequentialist: Yes, because the measures have positive effects on humans, animals or nature

❯ Consequences are crucial for an evaluation, the reasons (e.g., profit maximization) are irrelevant!

Behavioral implications as ethical evaluation

Example: When John tries to rescue a child from a well, a bumblebee is chased up and flies into a cabin of a truck, whereupon the driver loses control and drives headlong into a crowd of people.

Was John's attempt to rescue the child immoral?

> Unintentionally, John's action caused more harm than good
>
> Consequentialism: Only predictable consequences are considered in the evaluation of an action!

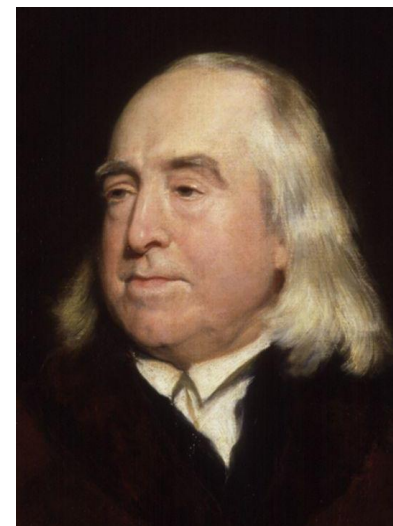# Variation of Consequentialist Ethics: Utilitarianism

Utilitarianism

Jeremy Bentham
1748 – 1832

English philosopher, legal scholar and social reformer

"It is the greatest happiness of the greatest number that is the measure of right and wrong."

Jeremy Bentham
Source: Wikipedia

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Utilitarianism

- Jeremy Bentham and John Stuart Mill as founder of utilitarianism

- Utility is crucial to distinguish between good and bad actions

- Utilis = useful; utility here is often defined in terms of well-being, happiness or related concept
- Utility of the „greatest number"; not utility of the individual

- The best decisions:

    1) generate the most benefits as compared to disadvantages

    2) benefit the largest number of people

→ **Maximization of happiness**: Do the greatest good for the greatest number of people

Consequentialistic Ethics: A few considerations

What is the target variable or the bundle of targets to be maximized?

- Utilitarianism: Maximization of happiness → But: **What is happiness?**
- *John Stuart Mill*: distinguishes between different qualities of happiness
- *Peter Singer*: Target variable = preference fulfillment; Action is aimed at achieving certain goals, not cognitive happiness; Goal achievement does not have to lead to happiness

In what consequences should we be interested in?

- Maximization of favorable consequences for all people living today or for those living today and in the future? → Question of **intergenerational justice**
- Maximization of human happiness or the happiness of all sentient beings in general?

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Drawbacks of Consequentialist Ethics/Utilitarianism

- **Limit on practical implementation**

  - How to know/determine the consequences of actions? E.g., long-term vs. short-term consequences? What about (unintended) side-effects?

  - How to compare the happiness and preferences of many different people?

  - How can utility be calculated?

- **Excessive demands on the individual**

  - Benefit of all should be maximized → Every single decision becomes a moral issue

- **Injustice: Happiness of the individual could be sacrificed for happiness of the mass of people**

  - Humans as means to an end?

  - Individual and its rights are less important than overarching benefits
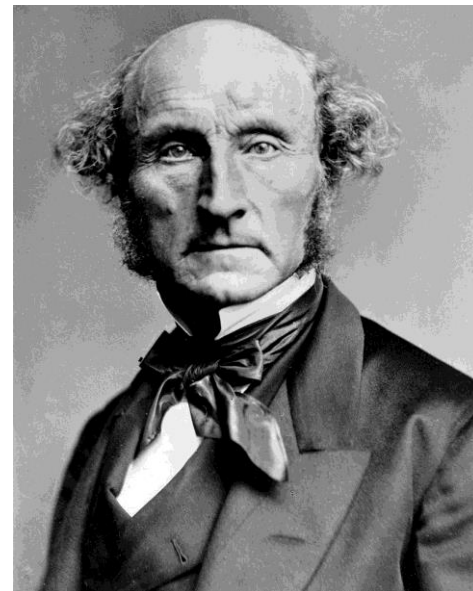
Liberalism (1)

John Stuart Mill

1806 – 1873

English philosopher and political economist

"That the only purpose for which power can be rightfully exercised over any member of a civilized community, against his will, is to prevent harm to others."

Liberalism (2)

"On Liberty" 1859

- The freedom of thought and emotion. This includes freedom to act on such thought, i.e., **freedom of speech**

- The **freedom to pursue tastes** (provided they do no harm to others), even if they are deemed "immoral"

- The **freedom to unite** so long as involved members are adults, involved members are not forced, and no harm is done to others

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Liberalism (3)

Harm Principle (J. S. Mill)

"That no one should be forcibly prevented from acting in any way he chooses provided his acts are not invasive of the free acts of others."

But sometimes norms or ethical paradigms clash…

Opposing norms:

- <u>Example:</u> An entrepreneur may be forced to make a choice of either paying expensive bribes in a developing country to win a contract for a large-scale project, or to forgo bribery, thereby jeopardizing jobs in his/her company
- → Violating the prohibition of bribery vs. violating the corporate code (e.g., caring for employees)
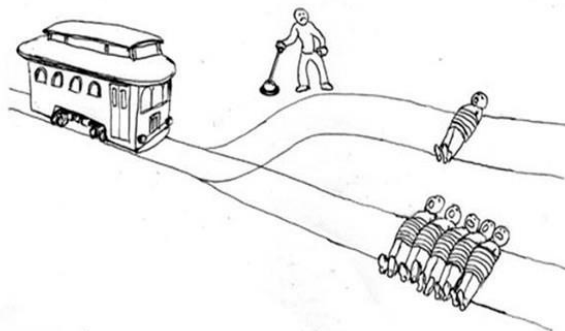
Clash between norms and individual cases:

- Norm: Certain ethical paradigm that dictates the maxim of action
- Individual case judgment: value judgment in a real action situation independent on an ethical paradigm
- Example: **Trolley problem**

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- Norm: Certain ethical paradigm that dictates the maxim of action

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- Example: **Trolley problem**

A thought experiment: Trolley Problem

Moral thought experiment based on publications by Philippa Foot in 1967:

„ A tram is out of control and threatens to overrun five people. By moving a switch, the tram can be diverted to another track. Unfortunately, there is another person. Can the death of one person be accepted (by moving the switch) in order to save the lives of five people?"

Example: Clash between norms and individual cases (1)

General Norm

Judith is a utilitarian.

Norm: Maximize happiness of all i.e. sacrifice one person to save the others

versus

Individual case decision

Judith's **not moving the switch to reroute the train**.

Value judgement: You must not consciously decide against a person!

Source: iflscience.com

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Example: Clash between norms and individual cases (2)
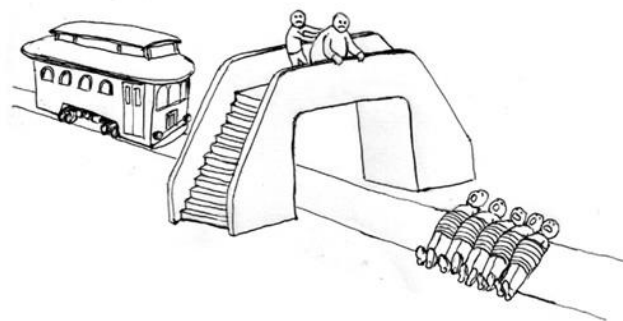
General Norm

Judith is a utilitarian.

Norm: Maximize happiness of all i.e. sacrifice one person to save the others

versus

Individual case decision

Judith **doesn't throw the person on the tracks to stop the train**

Value judgement: You must not push the person down.

What does the law say to this decision?

Is it legitimate to weigh life?

Legal situation in Germany:

German Aviation Security Act (before 2005): Legal permission to shoot down passenger aircraft in the event of hijacking in order **to minimize fatalities.**

Judgment of the Federal Constitutional Court 2006:

„The authorization of the armed forces to shoot down an aircraft intended to be used against human life by force of arms by direct impact in accordance with § 14 (3) of the Aviation Security Act is incompatible with the **right to life** *in accordance with Article 2 (2) sentence 1 of the Basic Law in conjunction with the* **human dignity guarantee** *in Article 1 (1) of the Basic Law to the extent that people on board the aircraft who have* **not been involved in an act** *are affected".*

Modern Trolley Problem: Moral Machine Experiment (1)

The Moral Machine is an online platform developed from a research project at the Massachusetts Institute of Technology (MIT).

**The aims of the platform are:**

1. Identifying a broad view on how **machines should solve moral dilemmas**

2. Offering a forum where the **public can discuss** the collected, potentially morally problematic scenarios.

MORAL MACHINE

Source: Awad et al. (2018)

Exkurs

Modern Trolley Problem: Moral Machine Experiment (2)

What should the self-driving car do?
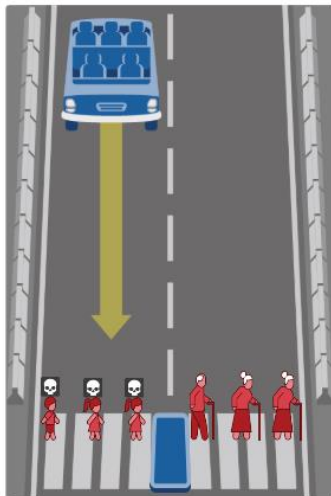

vs.

5 persons   1 animal

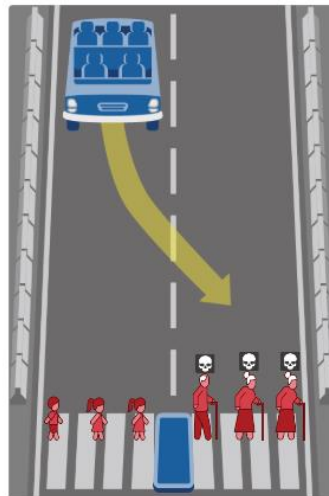Source: Awad et al. (2018)

Exkurs
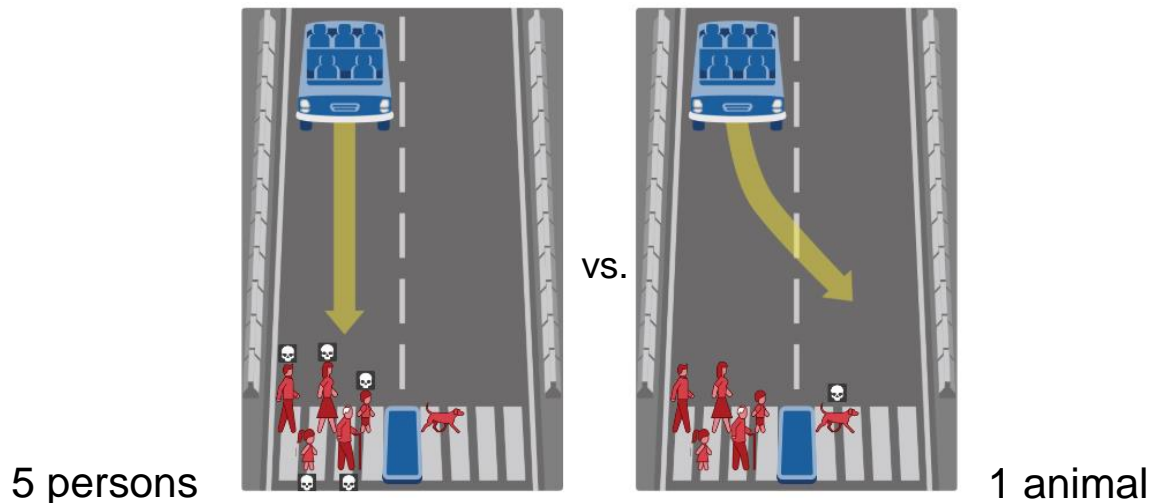
Modern Trolley Problem: Moral Machine Experiment (3)

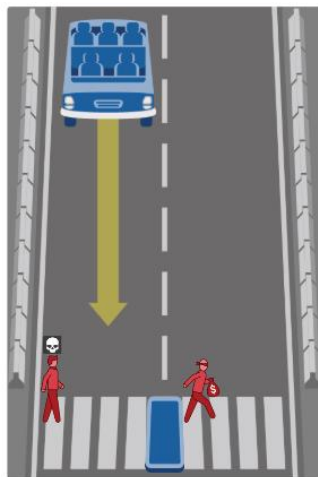What should the self-driving car do?

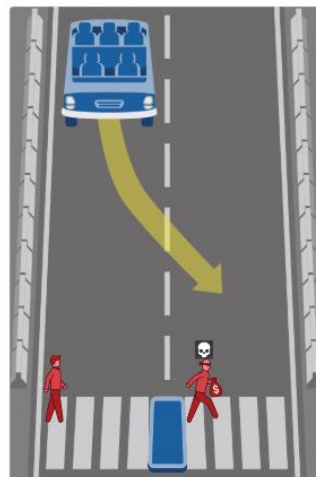3 younger persons vs. 3 older persons

Source: Awad et al. (2018)

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Exkurs

Modern Trolley Problem: Moral Machine Experiment (4)

What should the self-driving car do?

1 law-abiding person

vs.

1 criminal

Source: Awad et al. (2018)

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Modern Trolley Problem: Moral Machine Experiment (5)

Exkurs

Results:

- collected 39.61 million decisions from 233 countries, dependencies, or territories

- showed broad differences in relative preferences among different countries

- in general the data indicates that people support **minimizing loss of life** and **protecting children**, **favoring the fit and wealthy**, and sacrificing people who are old, overweight, or homeless.

Source: Awad et al. (2018)

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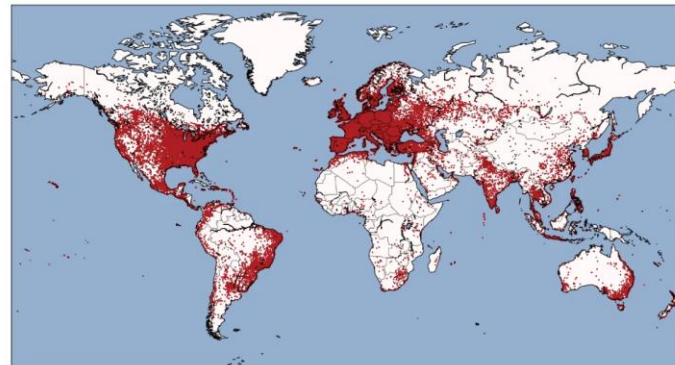
Ethical Guidelines for Autonomous Vehicles

Ethics Commission for Automated and Networked Driving of the Federal Ministry of Transport and Digital Infrastructure: **World's first ethics guidelines for automated driving**, **presented in Berlin, June 2017**

20 Ethics Guidelines, e.g.:

- Personal injury takes precedence over damage to property

- Liability passes from user/owner to manufacturer and operator of software

- General programming to reduce the total number of personal injuries permissible

Source: bmvi.de; Lütge (2017)

Exkurs

# Ethical Guidelines for Autonomous Vehicles

Guidelines of the Ethics Committee (touching on dilemma situations):

7. *In hazardous situations, which prove to be unavoidable despite all technical precautions, the **protection of human life** has the **highest priority** in a balancing of legal interests. Programming must therefore be designed within the framework of what is technically feasible in such a way as to accept **animal or property damage** in the event of conflict if this can prevent personal injury.*

8. *In unavoidable accident situations, any **qualification according to personal characteristics** (age, sex, physical or mental constitution) is **strictly prohibited**. A general programming to reduce the number of personal injuries can be justifiable. Those involved in creating mobility risks must not sacrifice uninvolved persons.*

Source: bmvi.de; Lütge (2017)

Exkurs

The Trolley Problem & its Practicability
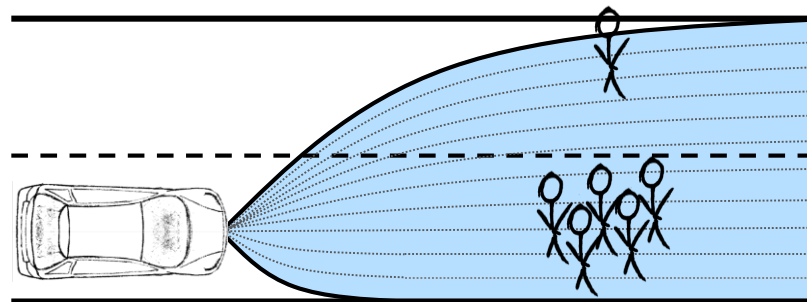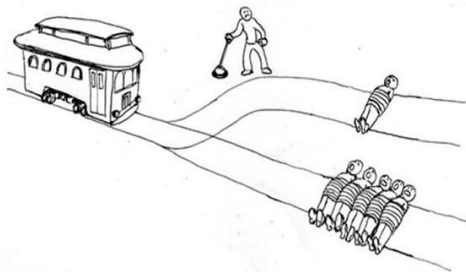
Benefits of the Trolley problem

- raises reflection, understanding and awareness of normative theories
- gives insights into societal reasoning and opinions

Shortcomings for autonomous driving

- postulated consequences as certain event
- limited number of options
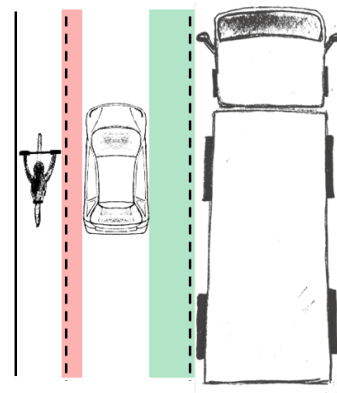- missing contextual information (obligations, responsibility?)

The Trolley problem is straight-forward (which makes it easy to explain / comprehend issues in autonomous driving ethics) but it is not as relevant in practice!

Exkurs

Reframing the AV Debate Towards Ethics of Risks
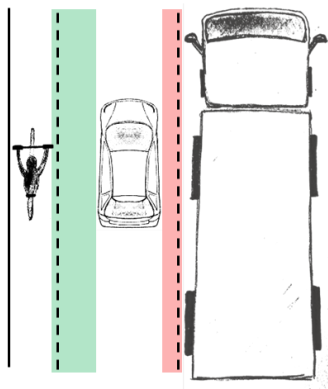
More risk on ego vehicle

More risk on cyclist

No decision about life & death, but how risks are distributed (also in mundane traffic scenarios)

Stay up-to-date with our progress within the ANDRE project: https://ieai.mcts.tum.de/research/andre-autonomous-driving-ethics/

So, what to do when general principles & individual judgments contradict?

John Rawls (1971) suggests that we should try in such cases to brings our norms and one-off judgments into reflective equilibrium in a process of mutual adjustment.

- **"Reflective equilibrium":** is the end-point of a deliberative process in which we reflect on and revise our beliefs about an (moral) area of inquiry. The inquiry might be as specific as the moral question, "What is the right thing to do in this case?" (Stanford Encyclopedia of Philosophy)

Two consideration balances

First Act:
Balancing between individual case judgments and general principles

Second Act:
Balancing of different general principles

→ **Coherence** between intuitions, case-by-case judgments, norms and supreme principles **AND**
  → **Harmonious whole** in which judgments and principles support each other

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Weakness: Problem of operationalization

Coherence ⟶̸ moral truth
- Coherent system of case-by-case judgments, intuitions, rules and general principles do not need to be right
- Example: Slavery was essential to the social and economic order of ancient Greece. A young man growing up in ancient Athens learned that slaves were not treated with the same respect, much less accorded the same rights as the citizens of Athens. It is not difficult to imagine that such a young man – assuming he brought his beliefs into a reflective equilibrium – could very well have had a coherent system of beliefs that did not grant certain people fundamental rights.

❯ Coherence criterion alone is not enough, danger of ethical relativism (= norms and values are time-bound/expression of the respective epoch)

Two Types of Dissent in Modern and Pluralistic Societies

What is a **good life**?

- Urban areas are teeming with millions of people
- Different backgrounds, languages, hobbies, lifestyles
- No consensus on how to live your life

❯ Dissent does not lead to problems

What is **morally imperative**?

- Controversies especially in ethical and economic issues
- E.g. fair price / salary? Freedom vs. Exploitation? Markets for blood, organs, sex? Distribution of wealth? To what extend is inequality socially acceptable?

❯ Dissent leads to problems

Three Philosophical Tools for Establishing Norms under Dissent

Goal: generate ethical principles to deal with differences of opinion

> **Contractual concepts**

> **Democratic majority principle**

> **Justification and Deliberation**

Contractual Concepts

Basic Idea:

moral norms, institutions, and the institutional structures of societies are only legitimate, if they have the **consent of the population**

Criterion: Instead of maximizing utility via *rules* → Consent (of all people) to a rule

➡ **Ability to consent** instead of actual consent: consent can be expected on the basis of interests/preferences

➡ **Hypothetical contracts** instead of de facto contracts: Large number of hypothetical contract participants

❯ understand contract-theoretical logic as a kind of **thought experiment**.

Contractarianism vs. Contractualism

	Contractarianism	**Contractualism**
Traditionally by	Thomas Hobbes (1588-1679)	Immanuel Kant (1724-1804)
Contracting parties	maximizer of one's own utility	morally motivated agents
conditions of use	divergent interests + little moral common ground	Similar interests + common moral basis

For pluralistic societies with cultural differences	For communities with a strong cultural foundation

Hobbesian Contractual Concepts

Two insights:

1) **Conflict between groups of people had always the potential for war and destruction**.

➡ peace as a necessary condition for the good life in private life

2) **Peaceful cooperation creates additional value for everyone (specialisation, economies of scale)**

Example: 10 million families living on 10 million single islands

Cooperation can overcome subsistence economy

➡ Cooperation creates prosperity

Kantian Contractual Concepts (1)

Three main differences between Kantian and Hobbesian concepts of a contract:

1 **Modelling of the contract situation**:
additional moral ideal (e.g. Equality, fairness) in initial situation of contract situation
Thus: counteract unequal power relations in Hobbesian contract concepts

❯ starting position of a contract greatly determines its outcome.

Kantian Contractual Concepts (2)

Three main differences between Kantian and Hobbesian concepts of a contract:

2 **Rejection of the Pareto principle (ethically inadequate)**:
morality cannot be reduced to a mutual exchange of benefits (as merely improving both sides' positions can run counter to essential intuitions of fairness)

3 **Type of communication between contracting parties**:
Hobbesian contract theory: participants discuss the means that would be ebst to promote everyone's means (Question: should one not also deliberate the various aims?)
Kantian contract theory: discussion of choice of means separately (parties have to abstract from their own wishes)
→ Not easy!

Kantian Contractual Concepts (3)

How does one arrive at a fair choice of goal and means?

➡ Asking for justice regardless of one's own wishes and interests

Rawls' veil of ignorance:

Moral problems should be discussed behind veils

Contract participants know neither

- social status
- religious / ethnic affiliation
- mental / physical nature

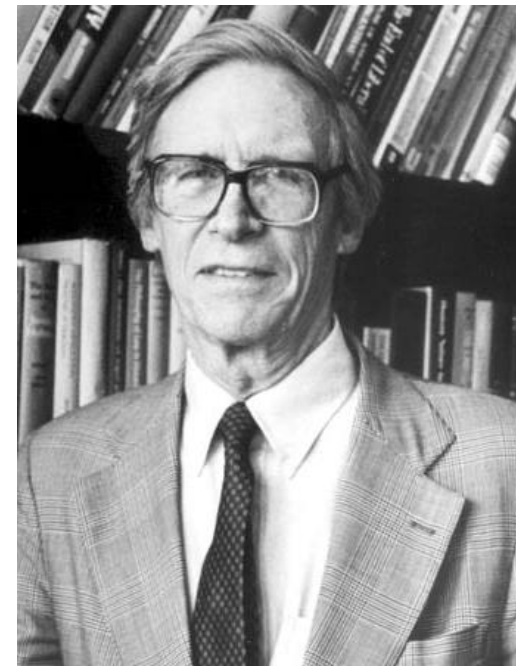❯ Discussion of impartial observers instead of self-interested individuals

Veil of ignorance in more detail (1)

John Rawls
1921 – 2002

US-American philosopher

"A Theory of Justice" (1971)

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Veil of ignorance in more detail (2)

Though experiment: Imagine you have to found a society. Which five guiding principles would you choose?

John Rawls – "A Theory of Justice"

VEIL OF IGNORANCE
IN THE ORIGINAL POSITION ALL INDIVIDUALS ARE BEHIND THE VEIL OF IGNORANCE, THEY DO NOT KNOW WHICH ROLE THEY WILL PLAY IN THE FUTURE SOCIETY. AGAINST THIS BACKGROUND THEY HAVE TO NEGOTIATE A SOCIAL CONTRACT, EVERYONE WILL AGREE WITH. THE NEGOTIATED RULES WILL BE APPROVED OF, IF ALL INDIVIDUALS IN ALL POSITIONS ARE BETTER OFF IN THE END.

Kantian Contractual Concepts (4)

Problem: moral overload of the parties of the dispute:

- Citizens of a society must have certain common abilities or characteristics
- stronger conditions than the Hobbesian contract concepts
- Legal perspective: Ethical judgments are made by impartial judges who have no self-interests

❯ Implementation of solutions can be difficult or even impossible

Democratic Majority Principle

Idea:
- dissent votes on moral questions
➡ majority opinion as a tool for establishing standards

Serious problems:
- Discrimination against minorities possible (e.g. majority prohibits catholicism/ cars/ same-sex marriages)

❯ Majority principle can lead to suppression. It needs additional normative regulations (e.g.: fundamental rights)

Discourse Ethics - Consensus as a Goal

The ideal of Discourse Ethics:

"No speaker shall be prevented from exercising (his) established rights by coercion within or outside the discourse."

Essential principles:
- "Equal participation in the discourse"
- Securing "rule-free discourses"
- Only the better argument counts
- possibility to put yourself into the position of the opponent

❯ Aim of Discourses: Consensus Finding: But is that really realistic in practice?

Source: Jürgen Habermas 1983: Moralbewusstsein und kommunikatives Handeln. Suhrkamp, Frankfurt/M., 97-99.

Three Difficulties for Reaching a Consensus

According to discourse ethicist **Peter Ulrich (2008):**

Fundamental reasons
- some affected of a moral norm are in principle excluded from discourse
- Example: underages, non-born (intergenerational justice!)

Pragmatic reasons
- Number of people affected is too big to involve everyone.

Motivational reasons
- Some participants are unwilling to search for a viable solution.

Discourse Ethics as a Business Ethic according to Ulrich (2008)

Business Ethics:

"Profit making must be justified in corporate policy deliberation processes vis-à-vis all stakeholders."

Conclusion

- There are different ethical theories in normative ethics (e.g., deontological ethics, virtue ethics, consequentialism…)

- These can help determine – based on different criteria – whether an action is morally right or wrong

- Sometimes norms and ethical paradigms clash (example: Trolley Problem)

- There are a few philosophical tools (e.g., contractual concepts, the democratic majority principle…) for establishing norms under dissent

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