

Introduction to Business Ethics:

Exam preparation

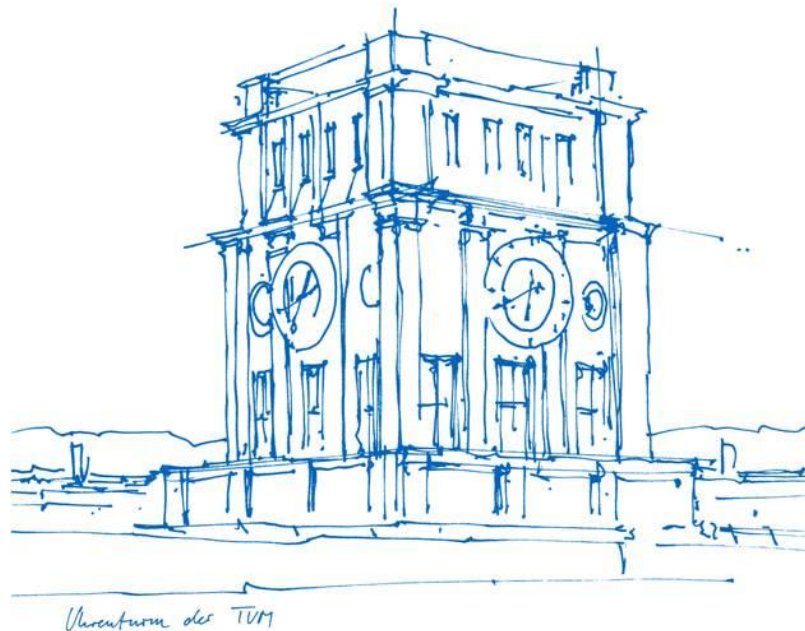
8. February 2023

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Raphael Max & Franziska Poszler

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Technische Universität München

Winterterm 2022/23





Agenda for today

- Exam structure and information
- Discussion of your questions & content recap
- Open questions?

Exam Structure and Information (1)

- Module “Foundations of Entrepreneurial & Ethical Business”:

Exam date: February 17th, 16.30-18.30 (120 minutes)

- Written exam with physical presence
- Part II of the Module (Introduction to Business Ethics) consists of 50 questions
- Max 50 points for Business Ethics
- Both exams have to be passed
- Single choice questions (only ONE answer is correct)
- **Only** the answer on the **answer sheet** will be counted!

Exam Structure and Information (2)

- Single choice questions (only ONE answer is correct)

Question: Who won the 2022 FIFA World Cup?

- a. Germany
- b. Argentina
- c. France
- d. Croatia

Exam Structure and Information (3)

- Single choice questions (only ONE answer is correct)

Question: Who won the 2022 FIFA World Cup?

- a. Germany
- b. Argentina
- c. France
- d. Croatia

Exam Structure and Information (4)

- Maximum score is 50 points
- The exam consists of 10 pages
 - 9 pages of questions
 - **1 answer sheet**
- Do **NOT** open the staple (Heftklammer) of the exam.
- Please transfer your answers to the **SEPARATE REPLY FORM** (last page of the exam). Only answers on the reply form can be graded.

Exam Structure and Information (5)

- Please **make a cross** at the selected answer. For each question, only one answer can be chosen, otherwise the question can not be graded. In case you want to correct your answer, please paint the circle completely and make a cross at the newly chosen option.

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*You believe answer 1b), 2c) and 3a)
to be correct! So make a cross!!*

Exam Structure and Information (6)

- Please **make a cross** at the selected answer. For each question, only one answer can be chosen, otherwise the question can not be graded. In case you want to correct your answer, please paint the circle completely and make a cross at the newly chosen option.

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But you change your mind and believe 2a) to be correct after all!

So: First, color in the circle of 2c) completely. Second, mark answer 2a)

Exam Structure and Information (7)

- Please fill in your matriculation number correctly. This is of the utmost importance! Leave the leading zero out.

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Exam Business Ethics WS 2017/18

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Exam Structure and Information (11)

- Note that you can watch all the lecture recordings on **lecturio.de**!
- <https://www.lecturio.de/elearning/introduction-to-entrepreneurship-wi001058-part-ii-of-module-foundations-of-entrepreneurial-and-ethical-business-ws-2223.kurs>



Exam Structure and Information (12)

The ONLY materials allowed are:

- English-German dictionary (non-electronic, non-business, no content dictionary!)
- Non-programmable calculator

Exam Structure and Information (13)

What is relevant?

- **All content provided:** Lecture slides, Lecturio recordings, sample quizzes (unless indicated otherwise)!
- No exact numbers and statistics
- No question about the guest lecture by Dr. Andreas Nilsson

A helpful hint – Have a close look at:

- the sample quizzes, you might find similar questions in the exam...
- the following content recap



Discussion of your questions & content recap



Your questions

“What does (the Iceberg Model of) Monism describe?”

Two Options for Theory in Business Ethics (1/11)

Dualistic vs. Monistic Business Ethics

What ought to be done in light of conflicting demands for action?
e.g., shareholders vs. stakeholders

Fundamental contrast of

- Morality and Business
- Ethics and Economics

Two Options for Theory in Business Ethics (3/11)

Dualism vs. Monism

Dualism

Examples:

- Morality OR Economy
- Altruism OR Egoism
- Solidarity OR Competition
- Ecology OR Economy
- Common Welfare OR Self-interest
- Common Welfare OR Efficiency

Two Options for Theory in Business Ethics (8/11)

Dualism vs. Monism

Monism

"Economics as a continuation of ethics by other means"

Central normative criterion:

Mutual improvement

Therefore, all parties can agree on certain rules



Morality and Economics are considered two sides of the same coin.

Basis: modern understanding of economics



Your questions

“Chapter 3: Historical-economic Background: Premodernity and Modernity”

Changed Structures of Modern World (1/2)

Fundamental differences

1. People can influence their behavioral conditions (for example: participation in the political / economic sphere), limited degree of predetermined order of things and lack of a universally recognized external authority → **multitude** of different goals and beliefs
2. Strong increase in individual mobility in geographic, social, cultural, and professional dimensions: **Multiculturalism and Pluralism**
3. The **material wealth of humanity** saw an exponential growth since the Industrial Revolution that has intensified since 1945

Changed Structures of Modern World (2/2)

4. Modern society is characterized by the fact that individuals can escape direct "moral" control relatively easily, because social norms are **not enforced by face-to-face control** (excommunication, outlawing, moral appeal)

Premodern society: Ethics of behavior = improving the behavior of individuals
vs.

Modern society: Ethics of conditions = improving the conditions for individual behavior

- Change from premodern to modern societies requires a change from “ethics of behavior” to “ethics of order” (Lütge and Uhl, 2021)



Your questions

“Chapter 2.2 ...Are the different philosophical concepts relevant for the exam and if yes, could they please be explained a little bit?”

Classification of Philosophy (1)

- Theoretical Philosophy

What does exist? (Ontology)

What is the order of the world? (Metaphysics)

What can I know? (Epistemology, Philosophy of Science)

What is the relation of language and reality?

(Philosophy of Language) ...

- Practical Philosophy

What should I do? (Ethics)

What is the best means to achieve an end? (Economics)

What is the best order of society? (Political Philosophy)

- History of Philosophy



Source: tetraktys.de



Business Ethics (2/2)

DEFINITION OF BUSINESS ETHICS

BUSINESS ETHICS IS A DISCIPLINE OF PRACTICAL PHILOSOPHY THAT EXPLORES WHICH NORMS CAN BE ESTABLISHED AND BROUGHT TO BEAR UNDER CONDITIONS OF MODERN SOCIETY.



Your questions

“I didn’t understand the process of ‘what happens if general principles and individual judgments contradict’. Could somebody explain it at Wednesday?”

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

John Rawls (1971) suggests that we should try in such cases to bring 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



Your questions

“Socioscientific Foundation and Tools of BE, e.g. rationality?”

Classical Paradox of Value (1/2)

Why is a diamond more expensive than water?

	Exchange Value	vs.	Value of Utility
Water	low		very high
Diamond	very high		low

Already Adam Smith saw no direct connection of both value concepts.

Classical Paradox of Value (2/2)

Why is a diamond more expensive than water?

Labor theory of value

- Objective value theory
- The value of a good can be explained by amount of working time spent on it



Unable to solve the classical
value paradox

Marginalism

- Subjective value theory
- Individual use of a good is directly dependent on its available quantity



Solves the paradox

➤ Exchange value of water in desert high, in a city rather low



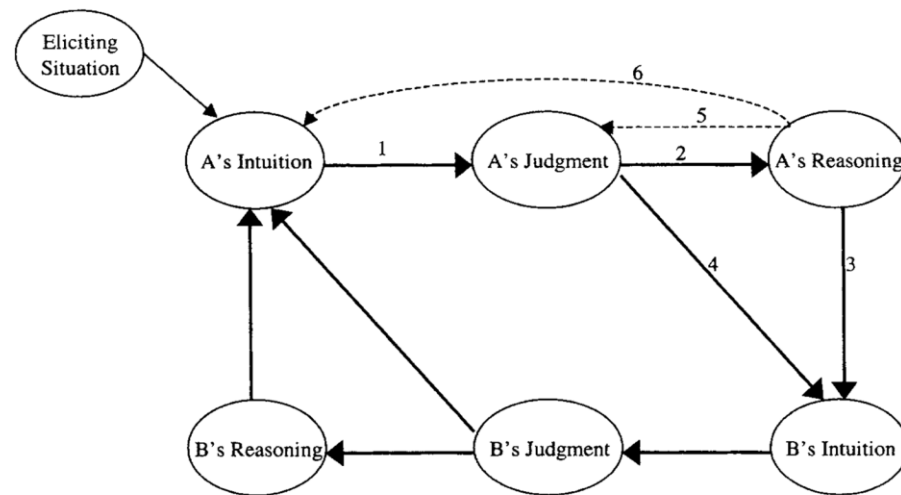
Your questions

“What are Limits of Reason for Moral Judgement?”

The Social Intuitionism Model to Moral Judgement (4)

The Social Intuitionism Model (Haidt, 2001)

The numbered links drawn from Person A only are (1) the intuitive judgement link, (2) the post hoc reasoning link, (3) the reasoned persuasion link, and (4) the social persuasion link. Two additional links are hypothesised to occur less frequently: (5) the reasoned judgement link and (6) the private reflection link.



The Limits of Reason for Moral Judgements (1)

Reasons to doubt the causal importance of reason for moral behavior (Haidt 2001)

- There is evidence supporting **dual process models in moral judgement making**. In this case, System 1 is involved based on automatic processes. Regarding first sight impressions (Albright et al., 1988), people seemed to keep a constant attitude towards a specific group from first sight to later on (Ambady & Rosenthal, 1992).
- The problem of **motivated reasoning** suggests that a post hoc reasoning is more important than a reasoned judgement and a private reflection. People would thus be more likely to arrive at their desired conclusion, while this ability is constrained by their ability to come up with reasonable justification (Kunda, 1990).

The Limits of Reason for Moral Judgements (2)

Reasons to doubt the causal importance of reason for moral behavior (Haidt 2001)

- People, post hoc, generate **causal explanations** out of a priori causal theory, such as social norms culturally transmitted supporting the evaluation of other people's behavior.
- The final reason relates to focusing on moral behavior instead of moral judgement. Strong evidence on psychopaths who understand harmful consequences of actions but do not care highlight that moral reasoning matters less for moral actions than **moral emotions**.



Your questions

“What does Buchanan criticize about the Distributive Justice Approaches and Welfare Economics?”

Buchanan's Critique of Welfare Economics (1/2)

1. Welfare economics tends towards intervention science

Criteria of outcome justice requires orientation toward theoretical ideal (e.g. Pareto Optimum)
If the ideal is not achieved, there is a tendency for state interventions

2. Efficiency criterion is unrealistic

Efficiency criterion: Any equilibrium that occurs in the complete market is a Pareto optimum
Complete market is a theoretical ideal ➡ Efficiency criterion is unrealistic
Abstract scale, instead of criterion of justice
Economics has lost its orientation function in society
Economics should be re-connected and upgraded in the public discourse

Buchanan's Critique of Welfare Economics (2/2)

3. Efficiency ideal regardless of wishes of individuals

Pareto Optimum is determined independently of market process ➡ independent of desires of individuals

Market as "Calculation Machine" (Samuelson 1954, 388)

Deviation of status quo from Pareto optimum = market failure (market prevented from doing calculative work)

Correction: indifference between democratic process and benevolent dictator

➡ Welfare economics raises efficiency to a normative requirement, which is to be achieved by state control

➤ Welfare Economics does not take the actual desires of those affected into account

Source: Paul Samuelson 1954: *The Pure Theory of Public Expenditure*. In: *The Review of Economics and Statistics*, 387-389.

Buchanan's Criterion of Consensus (1/3)

Buchanan's demand: an **internal and not ideal** criterion, rather than a theoretical ideal for comparing different social conditions

➡ Criterion of agreement/consent: Consistent orientation based on status quo

Can a situation be established from here and now
that everyone agrees to?

Buchanan's Criterion of Consensus (2/3)

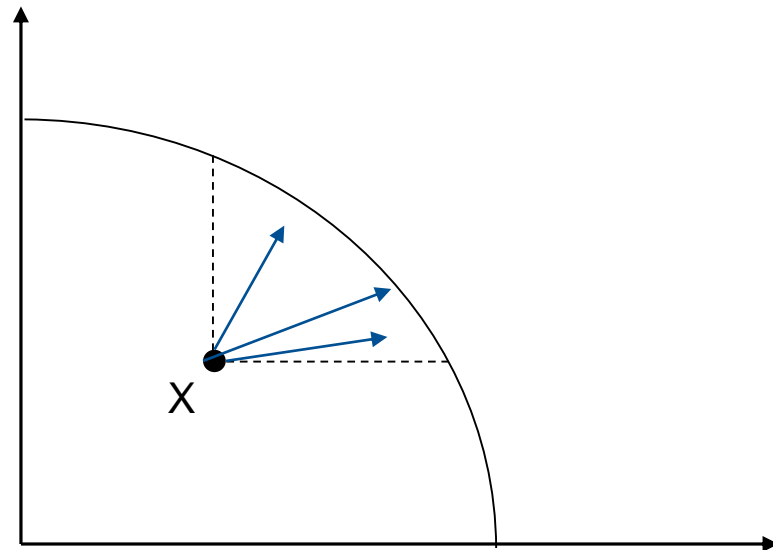
State X as a starting point (status quo)

Focus on all states that reach a consensus between players starting from State X

➡ successive movement in northeastern direction

➤ Reference point: status quo and not external Pareto criterion of complete competition

Utility of consumer 2



Utility of consumer 1



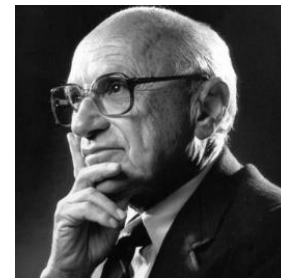
Your questions

“What is Friedman’s Theory about Social Goals and Corporate Responsibility and what is criticized about his Theory?”

1970 Friedman: Profit Maximization as Corporate Goal

*"The Social Responsibility of Business is to
Increase its Profits"*

- Milton Friedman



- Friedman's essay „The Social Responsibility of Business is to Increase its Profits” (1970) is regarded one of most influential views in Business Ethics
- According to this view, managers have clear and well-defined goal they should achieve: **Maximization of profits** for shareholders
- "CSR" would be use of resources for goals that are not required by shareholders

Tasks of Managers

- Shareholders employ managers for specific purpose (profit maximization)
 - Use for "moral" purposes (social, ecological, etc.) is thus **improper use of resources**
 - Managers don't have expertise to make good use of resources in areas outside their area of business
 - Resources will be allocated to achieve certain ends that are chosen by management (non-democratic decision)
 - Costs of this behavior will usually be allocated to customers or employees (forced tax)
- Managers thus undermine ownership rights
 - **endangering of liberal economic system**
- Responsibility for **social problems lies with state** - not with companies

Goal of Companies

Companies:

- Friedman: Companies emerged from free association of individuals and their property
- Objective and tasks of companies: determined by owner (has the right to do so)

Who determines tasks of company and who bears responsibility?

- usually managers, employed by owner

Agent (Manager)



Profit maximization

Principal (Owner)

According to Friedman, a company can **NOT be responsible** for an act because of its nature → "**Corporate responsibility**" is in fact semantic category defect

Social Goals and Corporate Responsibility

Assumption: companies are resource-rich actors → they should be **responsible for society**

BUT:

How can individual know if expenditures of resources serves "**social interest**" if **manager can not know** what "social interest" is?

Through **agent's commitment** to principal, goal of business is to **maximize profits** (fiduciary duty). Principal can easily judge fulfillment of goal and quality of work of agent via data (≠ "**Social goals**")

→ By complying with legal frameworks and basic moral standards, company is already **paying attention to other stakeholders**

Social Goals and Corporate Responsibility

Friedman's examples of misunderstood forms of "social justice":

1. Forego price increase to meet social desire to avoid inflation
2. Environmental protection beyond legal framework (achievement only by cost factor)
3. Recruitment of long-term unemployed rather than better-qualified workers (social integration)

Criticism:

- Managers, as agents, utilize resources that do not belong to them and are entrusted to them for another purpose
- Risk of shifting decision-making power over social developments → undermine central pillar of free society, namely property
- Only small group (of managers) who neither have the mandate nor the competence decides on social investment
- Incentive problem (no means to audit manager's performance)

Social Goals and Corporate Responsibility

Criticism:

Investment in social projects would **diminish profit; it is illegitimate form of taxation** of owners (against paradigm of profit maximization)

- **Illegitimate:** Taxation is not brought about by adequate procedure (**checks and balances**), but by small group of managers who do not have sufficient competence

Danger of **collectivism through corporate social responsibility**: By emphasizing social responsibility, it is implied that **profit motive of companies is wrong**

- Assumption of social responsibility as "**compensation**" for **morally dubious profit** striving
- If managers do not fulfill claims: "**iron fist**" by **state compulsion** (danger for liberal social order)

→ Task of state institutions is to account for social responsibility



Your questions

“Why is the Stakeholder Theory a Dilemma of Businesses?”



Stakeholder Theory (1/5)

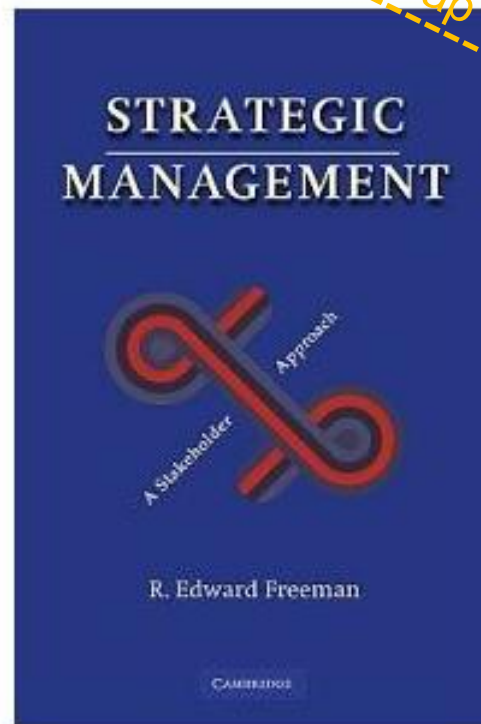
Expression used by Stanford academics since the early 1960s

Most importantly in 1984 by:

R. Edward Freeman:

Strategic Management. A Stakeholder Approach

Stakeholder: Person or group of persons with an interest in the company.



Stakeholder Theory (2/5)

Stakeholder theory emphasises the common interest of the firm and all the stakeholders

Friedman: Management of firms are obliged towards all their shareholders

Freeman's stakeholder theory encourages firms to take into account all stakeholder concerns



Stakeholder Theory (3/5)

Task of management. To balance a multiplicity of interests of sometimes conflicting interests of stakeholders.

Strategies for balancing interests of stakeholders:

- 1) Specific stakeholder strategy: Maximise benefit for what is believed to be the most important stakeholder(s).
- 2) Utilitarian strategy: Maximise benefits to all stakeholders (within means)
- 3) Rawlsian strategy: Raise the level of the worst off stakeholder

Employees may require higher wages and shareholders investment in production

Conflict between consumers desire for cheap products and their requirement for a cheap environment

Essential claim of Stakeholder Theory: Firms benefit from taking the interests of stakeholder into account.
If the can affect the firm, the firm should deal with them.

Challenge of Stakeholder Theory (4/5)

The increasingly critical civil society has often blamed firms for using stakeholder management in particular and CSR in general strategically. Accordingly it is not real CSR if it benefits the firm.

This creates the following dilemma for businesses

- 1) As moral obligation: Stakeholder theory as requirement for moral surplus => untenable in competitive market economy
- 2) Stakeholder theory as empirical claim: Considering the interests of stakeholders beyond legal obligations increases profit – controversial claim

Claim valid in societies with strong civic society and for corporations with high public exposure and replaceable products (VW, H&M, Shell)

Challenge of Stakeholder Theory (5/5)

Dilemma: If stakeholder management is purely strategic, i.e. only caring about stakeholders because it increases profit, there is no difference between Friedman's shareholder focus and Freeman's stakeholder management.

Freeman in interview: "I actually think if Milton **Friedman** were alive today, I think he'd be a **stakeholder theorist**. He would understand that the only way to create value for shareholders in today's world is to pay attention to customers, suppliers, employees, communities and shareholders at the same time."

If Friedman and Freeman are coherent: Then the theory is in no need of moral surplus.

If stakeholder management is meant as a moral obligation to take the interests of stakeholders into consideration, Freeman is asking for "Moral Surplus"

Source: <https://www.derby.ac.uk/online/course-taster/business-and-management-bsc-hons-online/the-instrumental-perspective-of-csr/shareholders-vs-stakeholders---friedman-vs-freeman-debate.php>



Any questions left?



**Thank you for your attention &
good luck!**