Teaching Business Ethics: The Principles Approach

by John Hasnas*

I. Introduction

A couple of decades ago, the cartoonist Gary Larson produced an amusing two panel cartoon. The first panel, entitled, "What We Say to Dogs," shows a man pointing at a dog and saying, "Okay, Ginger! I've had it! You stay out of the garbage! Understand, Ginger? Stay out of the garbage or else!" The second panel, entitled, "What Dogs Hear," shows the same picture with the words "blah, blah, GINGER, blah, blah, blah, blah, blah, blah, blah, GINGER, blah, blah, blah, blah." Change the dog to students and have the man talking about the categorical imperative or Aristotle's conception of eudaemonia, and you have a pretty good representation of a philosophically trained professor teaching ethics to a class of business school students. Few of us with PhDs in philosophy have not identified with the man in the cartoon at times. Nevertheless, in the triumph of hope over experience, many of us continue to serve up the philosophical blah, blah, blah.

Those who persevere are adherents of what may be called the philosophical approach to teaching business ethics. This approach consists of acquainting students with the leading theories of philosophical ethics (e.g., Kantian deontology, utilitarian consequentialism, Aristotelean virtue ethics), and then exploring how these theories may be applied to resolve various ethical problems

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that arise in the business environment. Practitioners of the philosophical approach do not always move directly from the highest level of abstraction to application. Frequently, the application is mediated by more specific theories of business ethics such as the stakeholder theory or integrative social contract theory. In such cases, the more abstract philosophical theories supply the grounding for the mediating theories, which are then applied to particular ethical problems. Adherents of the philosophical approach are typically PhDs in philosophy recruited to business schools to teach ethics.

The philosophical approach represents one of the two dominant models of business ethics pedagogy. The other may be called the atheoretical approach. This approach consists of having students analyze detailed real world (and sometimes hypothetical) cases that present difficult ethical issues and propose a course of action. No attempt is made to apply any particular ethical theory, but various factors that bear on the decision are weighed against one another. Thus, the students might discuss the effect various proposed courses of action would have on the business's prospects for financial success, their effects on various stakeholders, their effect on the business's reputation, etc. This casuistic process is often accompanied by heuristic devices such as the New York Times test—would you want an account of your action to appear on the front page of the New York Times?—or mirror test—could you look at yourself in the mirror if you took the proposed action? Adherents of the atheoretical approach are typically PhDs in business or related empirical disciplines who are interested in the science of human behavior.

Admittedly, these descriptions are caricatures. Few business ethics courses fall squarely within either model, and most have some elements of both. The distinction is worth drawing, however, because it highlights both the strengths and weaknesses of the way ethics is taught in
business schools. The strength of the philosophical approach is that it is truly normative. The sound application of theory to fact provides definite guidance for the resolution of difficult ethical questions. Its weakness, however, is that it is expressed in language that is virtually unintelligible to the audience it is intended to reach. Business students are not philosophers, and the language of philosophical ethics in which the guiding principles are expressed is often an insurmountable barrier to the students' efforts to apply them.

The strength of the atheoretical approach, in contrast, is that it employs language that is readily understood by business students and is easily assimilated into the case method pedagogy typical of business schools. Business students are good at marshaling facts and calculating the impact of proposed actions on affected parties. The atheoretical approach allows them to assemble a well-stocked smorgasbord of empirical factors relevant to the resolution of ethical questions. The weakness of the approach, however, is that it provides little or no guidance as to how to integrate these factors to arrive at such a resolution. Without clearly identified normative principles, students have no way of determining which factors are morally relevant or of assigning relative weight to those that are. Thus, they must rely on their moral intuitions or "gut feelings" to lead them to a conclusion. This feature of the atheoretical approach is responsible for the widespread impression among business students that ethics is not an objective pursuit, and gives rise to the "who's to say" phenomenon that all business ethics professors encounter.

In this article, I intend to present a third approach to teaching business ethics—one that I call the principles approach. This approach employs genuine ethical principles to guide decision-making, but dispenses with the abstract philosophical substratum upon which they rest in the philosophical approach. The principles approach is teleological in orientation, deriving normative
principles from the nature and purpose of market activity itself. These principles are then articulated in terms that are intelligible to non-philosophically trained business students. The principles approach is designed to navigate a course between the Scylla of incomprehensible abstraction and the Charybdis of unstructured intuitionism to arrive at an ethics pedagogy that is both principled and practicable.

II. Four Challenges

Teaching ethics is always a challenge. Most students spend most of their time collecting facts and learning how the world works. Switching focus from the study of what is to the study of what ought to be can be a jarring experience.

Through most of their education, students attain academic success by demonstrating the ability to understand or discover factual information and reproduce it on demand—to read, remember, and repeat. But ethics has no determinate body of facts to absorb and retain. Its focus is not on discovery, but on evaluation. The skills it requires are the analytical ones of perceiving the relationships among assertions, recognizing inconsistencies, tracing implications, and judging the cogency of arguments—skills that a significant number of students have never developed.

If this situation makes teaching ethics a challenge, teaching it in a business school is doubly so. Not only business students, but most business school faculty are completely unfamiliar with the techniques of ethical analysis. They are trained in quantificational methods and are often gifted empirical problem-solvers. They are skilled at determining the most effective means of attaining specified goals. But the conceptual tools needed to determine which goals are proper to pursue are entirely alien to them.

The lack of familiarity with the nature of ethical enquiry that is typical of business school
students and faculty presents those charged with teaching ethics in business schools with four major challenges: 1) the challenge of definition, 2) the challenge of abstraction, 3) the challenge of cultural relativism, and 4) the challenge of integration.

A. The Challenge of Definition

The first challenge of teaching ethics in a business school is determining what the term means. Philosophers employ fairly standard definitions when discussing ethics, dividing the field into normative ethics—the study of what constitutes the proper standards of right and wrong,—applied ethics—the study of how ethical standards apply to specific controversial issues,—and metaethics—the study of the nature of ethical enquiry itself. No such shared understanding exists in business schools in which ethics is used as an amorphous generic term that encompasses a wide array of both normative and empirical concerns.

In business schools, ethics can refer to the study of not only the genuine moral principles that guide human conduct, but also legal compliance, standards of professional behavior, empirical surveys of what the public or consumers believe to be morally proper behavior, moral psychology (the study of how human beings make moral decisions), instrumental ethics (using the public perception of ethical action to improve corporate performance or how to "do well by doing good"), environmental impact and sustainability, triple bottom line accounting, and anything containing the word "social" (e.g., corporate social responsibility, social enterprise, social management, social entrepreneurship).

Part of the explanation for the conflation of ethics with such purely empirical considerations is that most business faculty are trained exclusively in the empirical disciplines. To the extent that they are unfamiliar with the tools of normative analysis, they may have little
awareness of the distinction between normative and empirical issues. With their research focused on identifying the most effective means to specified ends, questions about the legitimacy of the ends may rarely arise. Further, to the extent that empiricists tend to identify everything that cannot be verified or measured by empirical techniques with matters of opinion, it is natural for them to identify ethics with a survey of opinion about what consumers or stakeholders or the public believe to be right.

Philosophers are aware of Hume's argument that one cannot derive a normative conclusion from purely empirical premises and G.E. Moore's description of the naturalistic fallacy. Most business faculty are not. Hence, it is not surprising that they conflate the study of ethical beliefs and practices with the study of ethics itself. This occurs frequently enough so that the fourth volume of Business Ethics Quarterly contained a symposium devoted entirely to clarifying the difference between normative and empirical pursuits.\(^1\) In that symposium, it was noted that the lack of a clear understanding of this distinction meant that "social scientists are all too prone to committing the naturalistic fallacy. What is becomes the definition of what ought to be; empiricism swamps normative claims altogether."\(^2\)

\(^1\)See 4 BUSINESS ETHICS QUARTERLY 111-180 (1994).

\(^2\)Bart Victor & Carroll Underwood Stephens, Business Ethics: A Synthesis of Normative Philosophy and Empirical Social Science, 4 BUSINESS ETHICS QUARTERLY 145-155, 151 (1994). This observation was bolstered by references to the work of top empirical scholars. For example, Linda Trevino and Bart Victor appear to derive a recommendation to dock the pay of groups of workers when individual wrongdoers cannot be identified directly from what employees consider ethical with no recognition that the question of whether it is actually is ethical still remains. Trevino, L. & Victor, B. (1992) Peer Reporting of Unethical Behavior: A Social Context Perspective. Academy of Management Journal, 35, 1, 38-64. Similarly, Jerald Greenberg and Robert J. Bies appear to argue as though they can refute ethical propositions with empirical research in statements such as,
So the first challenge of those assigned to teach ethics in a business school is to provide an intelligible definition of what ethics is to one's colleagues. Somehow, the ethics professor must create a general understanding that ethics does not address purely empirical matters, but is inherently concerned with the question of how human beings ought to behave; and hence, that the evaluation of moral principles will necessarily be one of the foci of a course in ethics.

This is no easy hurdle to overcome. I teach at Georgetown's McDonough School of Business, which prides itself on its commitment to ethics. Yet, during the most recent revision to its MBA curriculum, the committee preparing the curriculum released a draft that eliminated the core course in business ethics. When I asked why ethics had been eliminated from the curriculum, the representative of the committee responded that it had not and pointed to a course named "Managing the Triple Bottom Line."

B. The Challenge of Abstraction

Overcoming the challenge of definition leaves the ethics professor face to face with the second major challenge—the challenge of abstraction. For once it is clear that the study of ethics necessarily involves the study of ethical principles, the professor is confronted with the fact that

As Rachels put it, a just society "would be one in which people may improve their positions through work . . . but they would not enjoy superior positions simply because they were born lucky." Research does not support his claim. Specifically, although people may be reluctant to take rewards based on completely random criteria, they do believe that it is fair for them to reap the benefits of any victories received in the natural lottery. Greenberg, J. & Bies, R. (1992) Establishing the Role of Empirical Studies of Organizational Justice in Philosophical Inquiries into Business Ethics. *Journal of Business Ethics*, 11, 433-444 (p. 436).

3For purposes of this article, I use the term "principle" in a highly inclusive way to refer to any form of normative guidepost, not to privilege a deontological approach to ethics. Thus, as I am using the term, ethical principles can refer to the guidance provided by any ethical theory, whether consequentialist, deontological, or virtue ethics in nature.
such principles are usually expressed in highly abstract form.

Ethical arguments always have two types of premises: normative and empirical. The normative premise establishes the proper goals of human action and the constraints on their pursuit. The empirical premise provides the knowledge of how the world works that is necessary to achieve the goals or honor the constraints. Knowledge of normative goals and constraints divorced from empirical knowledge of how the world works is sterile. It does no good to know where you want to go if you have no idea how to get there. Similarly, even the most detailed knowledge of how the world works is useless without knowledge of what purpose it should serve. It does no good to have the most advanced means of transportation at one's disposal, if one has no idea of where to go.

Business faculty and students typically have no difficulty understanding the empirical premises in ethical arguments. These premises concern matters such as the way markets work, the effects of political regulation, cultural impediments to understanding, and the psychology of human decision making as individuals and within organizations—matters that are expressed in concrete terms and fall squarely within their expertise.

The situation is different with regard to the normative premises, which consist of ethical principles. Many professors of business ethics attempt to apply general theories of ethics directly to the problems that arise in the business environment. Because these theories must be broad enough to guide all aspects of human behavior, the ethical principles they prescribe must be equally broad, and hence, are necessarily expressed in highly abstract terms. Injunctions to do what will create the greatest good for the greatest number, or to refrain from treating individuals merely as means to the ends of others, or to promote human flourishing may capture human
beings' ethical obligations, but their articulation is anything but specific. For students untrained in moral philosophy, precisely what such injunctions mean and how they apply to particular situations is far from clear.  

Many business ethics professors recognize this difficulty and elect not to move directly from the most general ethical theories to application. These professors attempt to bridge the gulf between philosophical ethics and the concrete problems of the business world with "intermediate level" theories of business ethics—ethical theories that are specially tailored for the business environment. These theories, such as the normative stakeholder theory or the integrative social contract theory, attempt to introduce principles specifically designed to address the type of ethical problems that business people face. The hope motivating the introduction of such mediating theories is that the principles they prescribe will be more accessible to the non-philosophically trained business student than those of the general theories of ethics.

In the main, this hope goes unrealized. For the mediating theories themselves employ highly abstract principles. Definitions of stakeholders as groups and individuals "who can affect or [are] affected by the corporation," or "who are vital to the success and survival of the corporation" coupled with the injunction to "keep the relationships among the stakeholders in

4™Indeed, if the myriad of differing and incompatible conclusions drawn by business ethicists who appeal to the same Kantian injunction to treat individuals always as ends in themselves is any evidence, it is far from clear even to those who are trained in moral philosophy.

5ETHICAL ISSUES IN BUSINESS (Thomas Donaldson & Patricia Werhane eds. 7th ed. 2002), p. 42.

6Id.
balance”⁷ or to "pay[] attention”⁸ to the interests of stakeholders are not notably more concrete than direct appeals to the categorical imperative or the principle of utility. Similarly, the injunction to abide by all hypernorms and legitimate microsocial contracts⁹ is at least as abstract as the statement of the hypernorms themselves.

Hence, the second challenge for the business school ethics professor is to find a way to express the abstract normative principles necessary to ethical analysis and argumentation in concrete terms intelligible to empirically trained business students.

C. The Challenge of Cultural Relativism

The observation that contemporary business is conducted in a global marketplace is by now a tired bromide. But tired or not, it is true. In the twenty-first century, business is routinely conducted on an international scale. Trading partners come from all parts of the globe, and this implies that they come to the marketplace with widely differing cultural backgrounds and beliefs.

Cultural relativism refers to the empirically observable fact that people from different geographical regions, religions, or philosophical traditions hold differing beliefs as to what constitutes the morally proper standards of behavior. This is not to be confused with ethical relativism, which asserts that there are no universally applicable moral standards. The fact that people disagree over what the answer to a question is does not establish that the question has no correct answer. Cultural relativism does not imply ethical relativism.

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⁷Id. at 44.


Nevertheless, cultural relativism presents a significant challenge for the business school ethics professor, whose classes increasingly include students from all over the world. Ethical argumentation requires an appeal to ethical principles. But what are these principles based on? What reasons can the ethics professor give to students from different religious and cultural backgrounds to believe that the principles he or she is introducing are valid and binding? The western liberal philosophical tradition with its focus on the importance of individual autonomy is called "western" specifically because it is not universally accepted. Appeals to Kant's categorical imperative to ground the inviolability of individual human dignity are likely to be unpersuasive to those raised in a culture that regards the maintenance of the community as the highest duty. Similarly, appeals to eastern philosophical traditions are unlikely to move those raised in a culture that exalts rugged individualism. This difficulty is compounded by the fact that many students derive their moral beliefs from their diverse religious commitments.

The position of the business ethics professor is indeed a hopeless one if the only way to ground the principles necessary to ethical analysis is to convince a class of business students of the truth any particular philosophical tradition or ethical theory. Such a task would require its own course in ethical theory. Yet merely presenting a menu of philosophical approaches to the students with the injunction to chose among them leaves the students devoid of guidance, and really does transform ethical analysis into a matter of opinion. Hence, finding a way to effectively reach all the members of a class regardless of their cultural backgrounds–overcoming the problem of cultural relativism–is a major challenge for business school ethics professors.

D. The Challenge of Integration

Most business schools have a required course in ethics somewhere in their curriculum. But
where it is placed is rarely determined by what will most effectively integrate ethics into the overall curriculum. In many schools, ethics courses were added to the curriculum in an ad hoc manner in response to one or another of the waves of business scandals that have occurred over the past few decades. As a result, ethics courses have frequently been shoe-horned into the business curriculum wherever an opening could be found.

Ideally, an ethics course would be incorporated into the curriculum in such a way that it provides insight into the ethical issues that students will encounter in their substantive business courses. It would prepare students to recognize ethical issues in accounting, finance, marketing, strategy, and management, and arm them with intellectual tools with which to address such issues. When this is the case, ethics is not an insular subject cabined within a single course, but a theme that has been integrated into all courses.

Such integration is like the holy grail. It is frequently sought, but never found. Business schools often make commitments to integrate ethics into their curricula. But practical impediments guarantee that these abstract commitments are rarely, if ever, realized.¹⁰

To begin with, most business professors already believe that they are not able to adequately cover the subject-matter of their courses in the time allotted. Hence, they are naturally reluctant to crowd out what they regard as essential substantive material to add an ethics component to their syllabi. In addition, incorporating ethics into all substantive courses requires the faculty to revise their courses. One can see why faculty may lack enthusiasm for taking on

¹⁰In the 1990s, my own institution (then named Georgetown Business School) decided to adopt three “themes”–topics that were to be addressed in all substantive business courses. It decided that as a Jesuit institution, ethics should be one of these themes. When after several years, no progress had been made toward integrating ethics (or the other themes) into the substantive courses, the idea of having themes was quietly dropped.
additional, uncompensated work. Further, most business professors have little or no training in ethics. Simply directing them to add ethics to their courses is likely to add little value. Doing so almost guarantees that the atheoretical approach will be adopted, and that the ethics component of the course will devolve into mere expression of opinion. Yet, attempting to train an entire faculty to teach ethics competently carries an enormous cost in faculty time and patience. Finally, most business school faculties want to ensure that their students are as well-prepared as possible before they go on the job market. Hence, they are resistant to sacrificing time needed for the development of practical job skills to make room for ethical training, which is rarely seen as adding to the students' marketability.

Integration fails at most business schools because the individual incentives of the faculty work against the collectively desired end. The challenge of integration is to make ethics a significant and vibrant part of the students' education, rather than an isolated course that they must take to satisfy a graduation requirement. Because of the incentive structures at most business schools, this challenge is a formidable one indeed.

III. The Principles Approach

As daunting as these challenge are, I believe they can be met. There is a method of teaching ethics to business students that is practical, effective, and meaningful. That method is the principles approach.

The principles approach is explicitly teleological in orientation—that is, it derives its conclusions from the nature or purpose of the phenomenon under consideration. For business ethics, the relevant phenomenon is the activity of doing business in a market. Hence, the principles approach derives its constitutive normative principles directly from what it means to engage in this
Taking a teleological approach to ethics means recognizing that voluntarily engaging in certain activities can create implicit normative obligations. For example, if I agree to play chess with another, I implicitly agree to move my bishops exclusively along diagonal paths, to refrain from surreptitiously removing my opponent's pieces from the board when he or she is not looking, and otherwise abiding by the rules of the game. As a professor, when I give my students an exam, I implicitly agree to assign grades on the basis of the student's actual performance, rather on how attractive they are or how much I like them personally. In each case, my initial commitment to engage in the activity carries with it additional implicit commitments that arise out of the nature of the activity itself.

The principles approach to business ethics asserts that when people agree to form agency relationships and trade with each other in a market, they implicitly agree to abide by a set of identifiable ethical principles. These are the principles that must hold in order for markets to function and for parties to be willing to hire and trust others to act as agents for them. Just as an obligation to play by the rules is inherent in the agreement to play chess, the obligation to adhere to these principles is inherent in the agreement to play the "market game."

This approach was pioneered by Thomas M. Jones and Dennis Quinn in their article *An Agent Morality View of Business Policy.* In that article, the authors claim that by grounding their "arguments in an analysis of the moral foundations of economics and business," they can "show that the moral logic of market competition and the principal-agent model of the firm require

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managers to recognize [certain] principles as a higher priority than firm profits." Jones and Quinn argue that a general commitment to certain ethical principles "is a precondition either for the efficient working of markets or for the principal-agent model itself to hold. The acceptance of these . . . principles as norms of business is what enables an agency relationship to exist in the first place." Their point is that the very act of doing business in a market carries with it a commitment to abide by certain ethical principles.

What, then, are these principles?

A. Principle 1: Refrain from Physical Coercion

The first principle instructs business people to refrain from using physical coercion and the threat of physical harm to attain one's business objectives. This principle follows directly from the nature of the market, which is defined as "a public gathering held for buying and selling merchandise." The market is where people go to buy, sell, truck, and barter. In short, the market is the realm of voluntary exchange. As such, coercion—the use or threat to use physical force to attain one's ends—is definitionally outside the bounds of market activity. Employing coercion to obtain what one cannot get through bargaining is a method of overriding another's will—the
exemplar of involuntary exchange. Hence, it is the antithesis of market action.\textsuperscript{16}

The non-coercion principle is binding on those doing business in a market because the act of voluntarily entering into a market entails an agreement to refrain from using physical coercion in one's dealings with other market actors. If one understands what market activity is and voluntarily undertakes to engage in it, then one has implicitly agreed to eschew coercion in one's business dealings. The normative force of the non-coercion principle is generated by one's own actions.

A principle banning the use of physical coercion may seem rather uncontroversial. That, however, does not imply that its recognition is not crucially important. There are places in the world where the direct use of physical coercion and forced labor are still live issues,\textsuperscript{17} and physical coercion is often an issue in cases involving "sweatshop" labor in developing economies.

B. Principle 2: Refrain from Fraud and Improper Deceptive Practices

The second principle may be seen as a corollary of the first. It instructs business people to refrain from using fraud or improper deceptive practices\textsuperscript{18} to attain one's business objectives. It is

\textsuperscript{16}This principle, which bans the intentional use of physical coercion to override another's will, has no application to questions of psychological coercion in which a party feels forced to act in a certain way by circumstances or must choose among a severely constrained set of options. Such questions are addressed in the connection with the injunction to avoid exploitation. See \textit{infra} p. ?.

\textsuperscript{17}\textit{See, e.g.,} Doe I v. Unocal Corp., 395 F.3d 932 (2002) describing the project to develop the Yadana natural gas field and pipeline in Burma that involved the forced relocation of families and forced labor on the pipeline.

\textsuperscript{18}Not all forms of deception are ethically objectionable. What constitutes an "improper" form of deception is an important substantive question addressed in the course. In the present context, however, it would be distracting to attempt to answer this question in detail, and, in fact, different ethics professors may answer it differently. In my course, I identify the deceptive practices to which all parties have consented as morally acceptable. Just as prize fighters are not
a corollary of the non-coercion principle in the sense that fraud and improper forms of deception
serve as substitutes for coercion. Coercion employs force or the threat of force to cause people to
act against their own wills. Fraud and improper deceptive practices accomplish the same end
through trickery—they trick rather than force people into acting against their own wills. Like
coercion, such fraudulent and deceptive practices are intentional acts designed to override the
autonomy of a trading partner. Hence, like coercion, they undermine voluntary exchange, and are
inconsistent with market activity. And hence, one who understands what market activity is and
voluntarily undertakes to engage in it has implicitly agreed to refrain from employing such
practices.

C. Principle 3: Honor All the Terms of One's Contracts

The third principle instructs business people to honor all the terms of their contracts. This
principle can be derived from not only the nature of market activity, but also the principal-agent
structure of most business enterprises.

The market is the realm of voluntary exchange. But in the modern world, it is not the
realm of simultaneous voluntary exchange. When contracts are formed, one party usually
performs his or her part of the bargain before the other. Payment may precede delivery or vice
versa. Parties enter into such executory contracts only because they expect the other party to
perform if they do. Since the act of entering into an executory contract manifests one's belief that
one's trading partner is bound to honor it, he or she implicitly accepts the principle that parties are
bound to honor their contracts.

mutually guilty of assault because they have consented to be battered, market actors do not act
improperly when all affected parties understand that they are not required to be entirely
forthcoming.
Further, adherence to this principle is necessary for markets to function efficiently. If market actors did not recognize a moral commitment to honor one's contracts, parties could secure performance only by arranging simultaneous performance or incurring large enforcement costs. In either case, markets would collapse because the cost of enforcing executory contracts would exceed any gains that could be realized from their execution. To see that this is the case, imagine a world in which all contracts that did not require simultaneous performance had to be enforced with lawsuits.

Finally, a commitment to honor the terms of one's contracts is inherent in the principal-agent structure of most businesses. Other than sole proprietorships, most businesses involve arrangements in which the owners of capital and other resources hire others to use these resources to realize specified ends. In doing so, the owners are entering into an agency contract in which they advance their resources to others in return for a commitment to use the resources only for the purposes and in the ways they designate. No one would enter into such a contract as a principal unless he or she believed that the agents were bound to act in accordance with its provisions. There would be no point in hiring an agent if one had to spend all of one's time monitoring his or her conduct. Thus, the act of forming a business by hiring agents entails a commitment to the principle that individuals have an obligation to abide by the terms of their contracts.

The obligation to honor the terms of one's contracts, which may seem obvious, is far from trivial. This principle can do a great deal of work in specifying a business's obligations to the consumers of its products or services. In forming contracts with their customers, businesses make many representations about their product's performance or the nature of their service—what the
law calls express warranties.\(^{19}\) They describe the product's reliability, the extent of its expected service life, the costs of maintenance and upkeep, and, especially important, the safety risks associated with its use.\(^{20}\) (Service providers make analogous representations.) In addition, the mere act of offering products or services for sale as a merchant carries with it certain implicit representations as to the product's nature, quality, and purposes for which they may be used—what the law calls implied warranties of merchantability, fitness for particular use, and those arising from "course of dealing or usage of trade."\(^{21}\) The principle requiring one to honor all terms of one's contracts obligates businesses to live up to all such express and implied warranties. This can be a powerful tool for analyzing businesses' duty to protect its customers from both physical harm and psychological disappointment.

D. Principle 4: Treat All Parties with Equal Respect for Their Autonomy

The fourth principle instructs business people to recognize that all those with whom they have business dealings are entitled to equal respect as autonomous agents. The problematic aspect of this principle is that the word "autonomy" may not be familiar to the ordinary business student. Hence, it is useful to supplement the principle with a codicil explaining that an autonomous agent is one who has goals, desires, and life plans of one's own and the ability to pursue them. The principle is essentially an anti-discrimination principle instructing that there can be no "second class citizens" in the business world—there are no parties whose interests do not matter or may be

\(^{19}\)See U.C.C. § 2-313.


\(^{21}\)See U.C.C. §§ 3-314, 315.
discounted due to social prejudices. This principle can play an especially powerful role in the
analysis of businesses' obligation to their employees, and bears directly on questions of
employment discrimination, diversity and affirmative action, and sexual and other forms of
workplace harassment.

Like the principle requiring business people to honor all the terms of their contracts, this
principle is inherent in both the nature of markets and the principal-agent structure of business.
The market is where people go to realize their goals, satisfy their desires, or advance their life
plans through voluntary exchange with others. Trades occur only when both parties believe their
goals, desires, and plans will be advanced by the transaction. By engaging in trade, each person
expects his or her trading partners to recognize that he or she is an autonomous agent acting to
achieve personally important objectives, and to treat him or her accordingly. Hence, by engaging
in trade, each person also implicitly agrees to treat his or her trading partners in a similarly
respectful manner. Thus, entering the market carries with it a commitment to treat all trading
partners as full human beings whose personal goals, desires, and plans are as important to them as
one's own goals, desires, and plans are to oneself.

The obligation to treat business partners with equal respect for their autonomy is also
implicitly assumed by those who enter into the agency relationship characteristic of the business
enterprise. Principals advance their resources to agents in order to better realize their personal
goals, desires, and plans. The agents contractually agree to use these resources exclusively to
advance these goals, desires, and plans in preference to their own or anyone else's. Regardless of
one's own beliefs or desires, entering into the agency relationship requires one to recognize the
goals, desires, and plans of the principal as equally worthy of respect. Hence, the obligation to
treat the goals, desires, and plans of others as on a par with one's own is inherent in the agreement that creates the agency relationship itself.

E. Principle 5: Personal Ethical Responsibility Is Inalienable

The fifth principle instructs business people to act with the awareness that they always bear ethical responsibility for their actions. This principle is a warning that one can never rely entirely on the ethical judgment of another—that the fact that one was following another's orders can never be an adequate ethical justification for one's conduct.

There is nothing about entering a market that relieves an individual of ethical responsibility for his or her actions. Electing to engage in voluntary trade not only does not relieve an individual of any of his or her obligations, it adds the implicit ethical obligations identified in Principles 1-4 above.

There is also nothing about forming a business that can relieve either the owner/principal or the employee/agent of such personal responsibility. The act of forming a principal-agent relationship creates a new obligation for the employee/agent—the obligation to use the principal's resources in accordance with the instructions of his or her principal. But it does not relieve either the principal or agent of any of his or her personal ethical obligations. A principal does not alienate his or her ethical obligations by hiring another to act for him or her. One does not escape a duty to refrain from murder by hiring a hit man to kill one's victim. Similarly, an agent cannot alienate his or her duty to exercise ethical judgment by agreeing to act for another. There is nothing about the act of accepting employment as an agent that releases the agent from his or her ordinary ethical obligations as a human being. Further, a principal can delegate to his or her agent only those tasks that he or she is morally authorized to perform. One who does not have the
ethical authority to commit murder cannot authorize his or her agent to commit murder. Hence, an agent must always question whether the actions he or she takes in pursuit of his or her principal's interests are consistent with his or her ordinary ethical obligations and are those he or she has been morally authorized to take.

The principle that one cannot justify improper behavior with an appeal to authority is not a novel one, but it is one that is often forgotten. This is especially true in the business environment in which subordinates are often required to rely on the judgment of their superiors with regard to matters of strategy. The temptation to allow this attitude to spill over into matters requiring ethical as opposed to strategic judgment renders a principle emphasizing the inalienability of one's ethical responsibility essential to a course in business ethics.

F. Summary

The principles approach contends that there are at least five ethical principles that can be derived from the nature and purpose of markets and the principal-agent relationship inherent in most business organizations. For pedagogical purposes, I introduce these principles to students in a different order from that described above. Revising the list to reflect this order, the principles are:

1) Personal ethical responsibility is inalienable,

2) Refrain from physical coercion,

3) Refrain from fraud and improper deception,

4) Honor all the terms of one’s contracts, and

5) Treat all parties with equal respect for their autonomy.

The principles approach does not claim that these five principles capture all of a business
person's ethical obligations. Rather, they represent a minimal set of obligations that can be derived from the implicit commitments a business person makes by doing business in a market. Business people may be subject to other ethical obligations that are derived from other sources, and there is room for debate over how extensive these additional obligations are. For example, in my course, I supplement the five principles with a sixth non-exploitation principle that is grounded on an independent principle of justice. By design, the principles approach leaves room for supplementation of the five basic principles with as many additional considerations as the individual professor wishes to include. Thus, the ambition of the principles approach is to provide, not a complete account of a business's ethical obligations, but a core set of well-grounded ethical principles upon which a useful course in business ethics may be based.

IV. Meeting the Challenges

I contend that the principles approach can effectively meet all four of the major challenges faced by those charged with teaching ethics in a business school. Let's examine the advantages the principles approach has over both the philosophical and atheoretical approaches.

A. The Principles Approach and Challenge of Definition

The first challenge ethics professors face is to provide his or her business school colleagues with an intelligible answer to the question "What is business ethics?" A major advantage of the principles approach is that it provides a simple, clear answer to this question. Business ethics is the study of the normative principles that are inherent in the activity of doing business in a market.

Armed with this simple answer, the ethics professor should be able to explain to his or her colleagues that business ethics is not the study of the moral tenets one learns in Sunday school;
that it is not a course in legal compliance or professional behavior; and that it is not instruction in instrumental ethics or how to manage the public perception of ethical behavior to increase the bottom line. Further, he or she can explain that it does not require the introduction of abstract theories of philosophical ethics and it need not be defined by placing the word "social" in front of any noun.

More importantly, armed with a definition that places normative principles at the heart of the discipline, he or she should be able to make it clear that business ethics may involve, but cannot be limited to, the empirical study of how human beings make ethical decisions. Because all ethical arguments contain an empirical premise as well as a normative one, knowledge about how human beings act is always relevant to ethical decision-making. But the proposed definition should make it clear that business ethics is not merely the study of moral psychology. This in turn should go a long way toward preventing the conflation of ethics with purely empirical pursuits, and hence, reduce the risk of one's empirically-oriented colleagues committing the naturalistic fallacy.

The principles approach focuses on the normative commitments inherent in doing business in a market that constrain a business person's pursuit of his or her goals. By clearly defining business ethics in these terms, the principles approach can significantly improve a faculty's understanding of the role of an ethics course in the business school curriculum.

B. The Principles Approach and Challenge of Abstraction

Those who take the philosophical approach to teaching business ethics are immediately confronted with the problem of abstraction—that the normative principles at the heart of the approach are expressed in abstract language that is difficult for business students and faculty to
absorb. Indeed, this difficulty is what drives many of the non-philosophically-trained business ethics professors to adopt the atheoretical approach. But for a business ethics course to be valuable, and for it to be truly normative, it must contain some genuine ethical principles—some prescriptive standards that help the students determine whether conduct is right or wrong.

The principles approach resolves this difficulty. Under it, there is no need to introduce any abstract principles of philosophical ethics. Neither Kant, Mill, nor Aristotle need ever be mentioned. The professor never has to explain what it means to will that the maxim of one's action be a universal law, how to calculate what maximizes the greatest good for the greatest number, or what constitutes human flourishing. Further, the professor never has to introduce any of the philosophical theories of business ethics. He or she never has to explain what it means to balance the interests of normative stakeholders, what a hypernorm is, or how one determines the terms of an extant social contract.22

The principles approach delivers genuine ethical principles expressed in simple language that is easily assimilated by business students. And because the principles are derived from the nature of market activity itself, there is no need to introduce a substratum of abstract ethical theory for them to rest upon. This is not to say that the principles are either self-explanatory or self-applying. For example, which forms of deception are "improper," what constitute the implied terms of the typical contract, and what it means to respect another's autonomy all need to be specified before the principles may be usefully applied. But by and large, the principles employ

22I am not arguing that ethics professors in business schools should not introduce normative stakeholder theory (if there is such a thing, see John Hasnas, Whither Stakeholder Theory?: A Guide for the Perplexed Revisited, J. BUS. ETHICS (2012)) or integrative social contracts theory into their courses, but merely that they need not.
language—e.g., honor all the terms of one's contracts—which is easily understood by the layperson. Thus, the principles approach provides genuine normative principles in concrete terms that are intelligible to empirically trained business students.

C. The Principles Approach and Challenge of Cultural Relativism

Perhaps the most significant advantage of the principles approach is that it solves the problem of cultural relativism. Ethical argumentation requires normative premises. The principles approach supplies them without appealing to any parochial religious, cultural, or philosophical traditions.

Because the contemporary marketplace is truly a global one, no religious, cultural, or philosophical tradition is shared by all market participants. But the principles approach does not rely any such tradition. It is derived from the one thing market participants do share—the commitment to doing business in a market. Regardless of their religious, cultural, or philosophical backgrounds, by entering the market, all market participants voluntarily agree to engage in trade with others, and to all that such an action implies. The principles identified by the principles approach are the implications of the act of entering the market. They are binding on all parties because of the parties' own commitments, not because they are derived from any foundational ethical theory.

There is nothing novel about the observation that the common commitment to trade can overcome cultural and religious differences. As long ago as 1733, Voltaire noted,

Go into the London Stock Exchange—a more respectable place than many a court—and you will see representatives of all nations gathered there for the service of mankind.

23 And, to some extent, of the act of creating the agency relationship constitutive of a business.
There the Jew, the Mohammedan, and the Christian deal with each other as if they were of the same religion, and give the name of the infidel only to those who go bankrupt. There the Presbyterian trusts the Anabaptist, and the Anglican accepts the Quaker's promise.24

The common commitment to trade in a market that produces such comity is the source of the fundamental normative obligations that constitute the principles approach.

As one who has taught business ethics for many years, I consider the ability of the principles approach to overcome the challenge of cultural relativism to be it most important advantage. I cannot adequately describe both the relief I feel and the satisfaction I derive from seeing the heads of both my American- and foreign-born students nodding in agreement when we discuss the basis of their ethical obligations, rather than shaking in confusion or disagreement.

D. The Principles Approach and Challenge of Integration

The principles approach can overcome the challenge of integration as well, if the ethics course in which it is utilized is taught at the beginning of the curriculum. Efforts to integrate ethics into the curriculum fail because most business school faculty lack training in ethics, resist eliminating substantive material from their courses to make room for ethics, and have no desire to take on additional, uncompensated work. Teaching a principles approach-based ethics course early in the curriculum can eliminate each of these impediments.

An ethics course utilizing the principles approach is designed to acquaint students with genuine ethical principles expressed in non-abstract, non-philosophical language that they can easily apprehend. By the end of such a course, the students are armed with a set of fundamental principles—the five identified above—that they can use to analyze the ethical issues they encounter

in their future endeavors. If the ethics course is taught at the beginning of the curriculum, those future endeavors will include the substantive business courses they have yet to take.

Because the principles are expressed in language that is accessible to the ordinary business student, they are also accessible to the ordinary business professor. Hence, it is relatively easily to acquaint the faculty with the principles the students have been taught. This may be done with the distribution of a single sheet of paper identifying the principles and providing a brief explanation of the significance of each—an ethics crib sheet, if you will. (An example of such an ethics crib sheet is supplied in the Appendix).

The distribution of the crib sheet to the faculty is designed to create a common knowledge base of basic ethical principles among students and faculty as well as a common vocabulary for the discussion of ethical issues. Faculty may employ these principles in their substantive courses to whatever extent they see fit. If a member of the faculty wants to explicitly integrate ethical concerns into his or her courses, the crib sheet gives him or her the tools to do so in a way that the students will understand. If a member of the faculty does not want to explicitly integrate ethical concerns into his or her courses, he or she will not. However, when students encounter situations in their substantive courses that raise ethical concerns, they can refer to the principles with the expectation that faculty will understand what they are talking about. This is all that is necessary to effectively integrate ethics into a business school curriculum.

Further, this method of weaving ethics into the curriculum avoids the incentive problems that doom most efforts at integration. Other than the distribution of the crib sheet, no special training is required for the faculty. Faculty are not required to eliminate any material from their substantive courses, or otherwise alter their courses in any way, although they are given the
means to do so if they wish. Finally, faculty are not required to take on any additional work at all. Indeed, much of the integration will occur naturally as the students ask questions about the ethical issues they perceive in their substantive courses and faculty respond using the common ethical vocabulary the principles approach supplies.

I find that members of a business school's ordinary faculty often ask the ethics faculty for guidance on how to address the particular ethical issues that come up in their classes. Teaching an ethics course that utilizes the principles approach at the beginning of the curriculum and supplying the general faculty with an ethics crib sheet is a way of supplying such guidance on a systemic rather than an ad hoc basis. This form of integration not only does not create an additional and unwanted burden for the members of the general faculty, but provides them with a potential benefit. Thus, the principles approach produces a favorable change in the general faculty's incentive structure with regard to integrating ethics into the curriculum, and in doing so, brings the holy grail of integration within reach.

V. Conclusion

To be effective, ethics pedagogy must satisfy two conditions. It must supply genuine normative standards of behavior, and it must do so in a language that is accessible to students. For too long, the ethics pedagogy practiced in business schools has failed to meet one or the other of these conditions. Practitioners of the philosophical approach provide genuine normative standards, but in many cases, they do so in terms that are unfamiliar or unintelligible to the average business student. Practitioners of the atheoretical approach communicate effectively with their students, but all too often, provide them with no genuine normative standards by which to guide behavior.
The principles approach is offered as an attempt to jolt business ethics pedagogy out of the twin ruts it has fallen into by offering a model of teaching that can meet both necessary conditions. The principles approach satisfies the first condition by deriving genuine ethical principles from the nature of market activity itself and the principal-agent relationship that lies at the heart of all business organizations. Doing so, allows the principles approach to jettison the philosophical substratum that undergirds the philosophical approach, and with it, the abstract philosophical terminology that can be so confusing to business students. As a result, the principles approach can speak in a language that is easily apprehended by business students, allowing it to satisfy the second condition as well. The principles approach thus has the virtues of both of the conventional approaches–the clear communication of the atheoretical approach and the genuine normativity of the philosophical approach–with the vices of neither.

There are strong reasons for adopting the principles approach to the teaching of business ethics. It provides a definition of business ethics that should be intelligible to one's faculty colleagues, eliminates the abstraction that besets most efforts to teach ethics in a business school, can appeal to students from diverse cultural and religious backgrounds, and makes the integration of ethics into the larger business curriculum feasible. But perhaps the strongest reason I can offer in support of the principles approach is that since I began using it I have never once felt like the man talking to his dog in the Gary Larson cartoon.
Appendix: Ethics Crib Sheet

Students in Business Ethics are introduced to a set of five minimal ethical principles inherent in the activity of doing business in a market. These do not necessarily capture all of a business person's ethical obligations, but do capture a set of fundamentally important ones. The purpose of the Business Ethics course is to provide students with a basis on which to recognize ethical issues that may arise in their substantive business courses. This "crib sheet" is provided to the faculty to create a common vocabulary among MBA students and faculty with regard to ethical issues.

Five Principles

Principle 1 - Personal ethical responsibility is inalienable
Principle 2 - Refrain from using physical coercion and the threat of physical harm
Principle 3 - Refrain from fraud and improper deception
Principle 4 - Treat all parties with equal respect for their autonomy
Principle 5 - Honor all terms of one’s contracts

Crib Sheet

Principle 1 - Personal ethical responsibility is inalienable
Translation: "I was ordered to do it" never justifies unethical conduct.

Principle 2 - Refrain from using physical coercion and the threat of physical harm
Translation: None required. (Note the emphasis on "physical." This principle does not refer to psychological pressures.)

Principle 3 - Refrain from fraud and improper deception
Translation: **Improper** deception = a deceptive practice designed to cause another to act in a way he or she would not voluntarily agree to act to which the other has not consented.

  Example: An agreement to engage in business that requires one to exercise due diligence implies that one agrees that other parties are not required to disclose publicly accessible information.

Principle 4 - Treat all parties with equal respect for their autonomy
Translation: There are no second class citizens in business. Don't discriminate against socially disfavored groups.

Principle 5 - Honor all terms of one’s contracts
Translation: Honor all express and implied claims made about one's product or services.

  Example: One's product must pose no greater risk than those one expressly or implicitly communicates when marketing the product.