Ethics and Decision Making at the Organizational Level

• Do firms have a moral responsibility to design products that are safe and environmentally benign?
• If so, what is the scope of this responsibility?
  – Pinto case
  – Green product design
• Guest Speaker: Helen Holder will discuss this from perspective of her role at Hewlett Packard
Questions

• Do corporations have moral agency?
  – Or is this something only people have?
    • Lord Thurlow (17th century lawyer) - how can you “expect a corporation to have a conscience, when it has no soul to be damned and no body to be kicked?”

• What is the scope of their responsibility??
  – “Social Responsibility” of business debate
    • Milton Friedman vs Hoffman
    • Vs “responsible” business strategies
Pinto case:
Ford’s utilitarian cost benefit analysis

<table>
<thead>
<tr>
<th>Future productivity losses</th>
<th>Benefits</th>
<th>Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct</td>
<td>$132,000</td>
<td>Sales: 11 million cars, 1.5 million light trucks</td>
</tr>
<tr>
<td>Indirect</td>
<td>41,300</td>
<td>Unit cost: $11 per car, $11 per truck</td>
</tr>
<tr>
<td>Medical costs</td>
<td></td>
<td>Total cost: 12.5 million × $11 = $137.5 million</td>
</tr>
<tr>
<td>Hospital</td>
<td>700</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>425</td>
<td></td>
</tr>
<tr>
<td>Property damage</td>
<td>1,500</td>
<td></td>
</tr>
<tr>
<td>Insurance administration</td>
<td>4,700</td>
<td></td>
</tr>
<tr>
<td>Legal and court expenses</td>
<td>3,000</td>
<td></td>
</tr>
<tr>
<td>Employer losses</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td>Victim’s pain and suffering</td>
<td>10,000</td>
<td></td>
</tr>
<tr>
<td>Funeral</td>
<td>900</td>
<td></td>
</tr>
<tr>
<td>Assets (lost consumption)</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous accident costs</td>
<td>200</td>
<td></td>
</tr>
</tbody>
</table>

Total per fatality $200,725

Benefits $49.5 M < Cost $137.5 M

What was wrong with this analysis?
Public horrified

- Problem flawed utilitarian cost benefit analysis? Fix and problem goes away?
- Or something more?
  - a violation of belief that firms have a duty to protect consumers and the public from preventable harm?
- How far should Ford have been willing to go?
- What if customers had been given safer gas tanks as an “option”?
Was this a corporate moral failure?

- Or a failure of individual employees like Dennis Goia?
  - Had 2 opportunities to initiate recalls early on but did not do so – despite his “activist history and advocacy of business social responsibility.”
As it turned out

• 23 deaths -- or 400 plus?

• ~50 lawsuits - multi million dollar awards
  – But in most famous case judge reduced $123 M punitive award to $3.3 M

• NHTSA imposed 30 mph collision standard in 1976 and in 1978 forced Ford to recall all 1.5 M 1971-1976 models and fix fuel tanks

• 1978 Ulrich case - jury found Ford not guilty of criminal homicide after 3 teenagers killed after their Pinto was struck by a truck
Difficulties using Pinto case in this course

• Very old – early – mid 1970s

• Developments in CSR
  – Emphasis on responsible business strategies
    • Win/win strategies
    • Triple bottom lines
Difficulties using Pinto case in this course

• Quite different from kinds of problems we are focusing on in this class
NOTICE:
• THIS MATTRESS IS DESIGNED TO RESIST COMBUSTION WHICH MAY RESULT FROM A SMOLDERING CIGARETTE