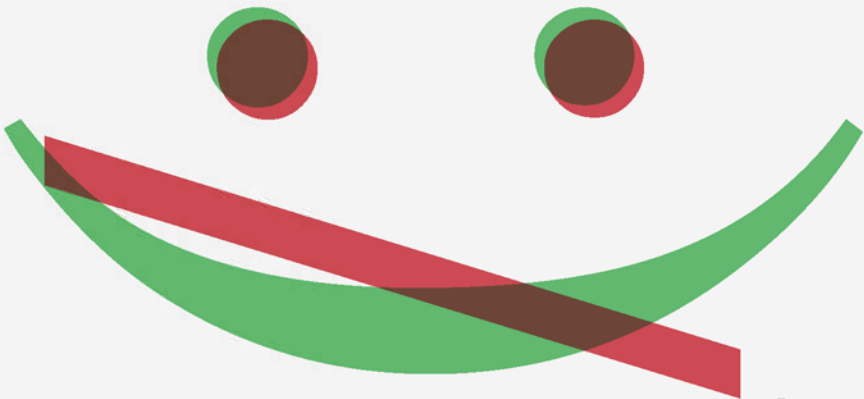




WHY BUSINESS ETHICS MATTERS

Answers from a New Game Theory Model



Wayne Nordness Eastman



Why Business Ethics Matters

Why Business Ethics Matters

Answers from a New Game Theory Model

Wayne Nordness Eastman

palgrave
macmillan



WHY BUSINESS ETHICS MATTERS

Copyright © Wayne Nordness Eastman 2015

Softcover reprint of the hardcover 1st edition 2015 978-1-137-43043-4

All rights reserved. No reproduction, copy or transmission of this publication may be made without written permission. No portion of this publication may be reproduced, copied or transmitted save with written permission. In accordance with the provisions of the Copyright, Designs and Patents Act 1988, or under the terms of any licence permitting limited copying issued by the Copyright Licensing Agency, Saffron House, 6-10 Kirby Street, London EC1N 8TS.

Any person who does any unauthorized act in relation to this publication may be liable to criminal prosecution and civil claims for damages.

First published 2015 by
PALGRAVE MACMILLAN

The author has asserted his right to be identified as the author of this work in accordance with the Copyright, Designs and Patents Act 1988.

Palgrave Macmillan in the UK is an imprint of Macmillan Publishers Limited, registered in England, company number 785998, of Houndmills, Basingstoke, Hampshire, RG21 6XS.

Palgrave Macmillan in the US is a division of Nature America, Inc., One New York Plaza, Suite 4500, New York, NY 10004-1562.

Palgrave Macmillan is the global academic imprint of the above companies and has companies and representatives throughout the world.

ISBN 978-1-349-58061-3 ISBN 978-1-137-43044-1 (eBook)

DOI 10.1057/9781137430441

Distribution in the UK, Europe and the rest of the world is by Palgrave Macmillan®, a division of Macmillan Publishers Limited, registered in England, company number 785998, of Houndmills, Basingstoke, Hampshire RG21 6XS.

Library of Congress Cataloging-in-Publication Data

Eastman, Wayne Nordness.

Why business ethics matters : answers from a new game theory model / Wayne Nordness Eastman.

pages cm

Includes bibliographical references.

1. Business ethics. 2. Game theory. I. Title.

HF5387.E27 2015

174'.4—dc23

2015013924

A catalogue record for the book is available from the British Library.

This book is dedicated to Hal Pond Eastman, Jr. (1930–2012)

Contents

List of Figures	ix
Preface	xi
Acknowledgments	xv
Overview of the Book	xix
Introduction: The Four Temperaments and the Four Games	1
Part I Humors and Games	19
1 We're Better Than We Think	21
2 The Harmony Games	39
3 Opening the Door to the Sanguine	61
4 Bringing Telos Back	93
Part II Business Ethics	117
5 Critical Business Ethics	119
6 Why Business Ethics Matters	141
Conclusion	161
Appendices	163
Notes	175
References	185
Index	197

List of Figures

	The Four Temperaments	xix
I.1	The Four Temperaments and the Four Games	16
1.1	Ignorance Is Bliss	37
2.1	The Weakest Link	59
3.1	Alternative Stories	91
4.1	Telos	114
5.1	The Blame Game	139
6.1	A History of Ethics	159

Preface

In Part One of this book, I advance a game-theoretic version of the classical four temperaments perspective on human nature. In Part Two, I offer an understanding of business ethics as a phlegmatic, pragmatic, and practical way of solving social games that is more productive than, but not morally superior to, other ethics animated by more emotionally intense temperaments.

Writing this book has involved a very long journey, in which I have experienced my own versions of the classical repertory of Sanguine, Melancholy, Choleric, and Phlegmatic feelings. Over the years on that journey, I have been inspired by the scholarship of four teachers I have been lucky enough to have known, and who have served as intellectual lodestars. Through them, I have learned, succeeded, failed, and tried again.

Professor Thomas Schelling, who many years later won a well-deserved Nobel Prize, was the first of my four guides at Harvard College in 1973. I felt tremendous enjoyment in my freshman seminar with him that fall.¹ I was fascinated and excited by the idea that you could use game theory to understand the world. I loved the 2×2 matrices he introduced us to, and the sometimes logical, sometimes psychological exercises he had us do and discuss.

In particular, I was deeply impressed by the disturbing logic of the Prisoner's Dilemma that Professor Schelling described to us. How could rational egoists escape the trap of following a "dominant strategy" that made both players better off no matter what the other did, yet left them both with a poorer outcome than they could have if they'd only been able to cooperate?

The man with the unfashionable bristly crew cut and glasses who was teaching us was one of the leading strategists of the Cold War era, when thousands of American and Russian missiles were poised to strike the other nation's cities and people at a moment's notice. By 1973—thanks in part, I believe, to Professor Schelling's work—detente was in the air, and nuclear war had become a less omnipresent and frightening prospect than it had been in the early 1960s, when my elementary school classmates and I had hidden under our desks in simulated fallout drills at the time of the Cuban missile crisis.

After enjoyment came shame. Like many academically inclined undergraduates in the 1970s who in another era might have gone on for their doctorates, I felt dubious about academic life and went to law school. PhDs were driving taxicabs, or so rumor had it, because the professorial jobs were all taken—and wasn't the real world the place to be in any case, not the ivory tower? But my dreamy, theorizing side remained strong, and in law school, I encountered the second person who transformed my thinking about games and the world.

Professor Schelling had made the eighteen-year-old me a deep-dyed believer in game theory. Duncan Kennedy—a charismatic, long-haired Harvard Law School professor who was a star in the then-new Critical Legal Studies movement—helped make the somewhat older me a skeptic about standard game theory, and about my earlier enthusiasm.

My loss of faith did not come from personal preaching by Duncan, for I never took a class with him, but from his articles, and, perhaps, through some instant mind-meld, from a time I saw him give a talk.² Post-Duncan, I was still preoccupied with the Prisoner's Dilemma. But now it was a skeptical, debunking fascination. As I toiled away as a litigator at a Wall Street law firm in the go-go 1980s, I consoled myself with the prospect of collecting my bonus, quitting my job, and writing a genre-busting philosophical novel that would include a critical dissection of game theory.

Hoping to make a break from law practice to teaching, I sent out letters to various schools inquiring about job possibilities and describing my novel. No job interviews resulted, but I did get a short anonymous note, postmarked from Michigan, saying that I should take a look at Robert Frank's *Passions within Reason*.³

I duly read the book. I was extremely impressed at Bob's account of how moral emotions could serve strategic functions—for instance, of how blushing could be a reliable signal of a character that was embarrassed by a lie and thus likely to be a trustworthy trading partner. Stimulated by *Passions*, I read other academic and popular works by Bob that used the Dilemma in a variety of imaginative ways to argue for public polices—for example, for work safety regulations as a good way to control a race to the bottom based on workers caring about their financial position relative to other workers, and hence valuing safety too little.

In the 1990s, my split “Duncan” and “Bob” halves were both productive. With the help of a business law colleague of my father's, I'd been lucky enough to get an adjunct teaching job at my father's school that eventually led to a tenure-track job. Faced with publish-or-perish pressure, I buckled down to write two kinds of articles. One kind drew on my “Bob side” to make a game theory–based case against the rat race. For example, I surveyed

my MBA students on their work hour preferences and analyzed the results to support the claim that managers in general, and women managers with children in particular, were trapped in a Dilemma that led them to work longer hours than they preferred.⁴ The second kind drew on my “Duncan side” to make a case that logical models usually associated with one political position—the Prisoner’s Dilemma and liberalism, supply–demand curves and free-market conservatism—could be flipped to tell the opposite side’s story.⁵

My split halves had worked fine for writing articles. But I could not make them pull together in 1999 after I got tenure and had a year-long sabbatical, or over the next ten years or so that I struggled futilely with successive versions of what was supposed to be a book on political ideology. There was a division within me. Was I tearing the heart out of ideology, and the fever dreams of believers of all stripes? Or was I supporting ideology, and advancing my own “neither right nor left” ideology? The result was a hypertrophied righteousness module. I was grumpy about my intellectual guides, and righteously angry about my own and everyone’s self-righteousness, partly because I couldn’t acknowledge and accept the ashamed, fearful, sad side of myself.

In the last four years or so, I believe I have gotten some way to the balance that so long eluded me.

First, reality brought me closer to accepting sadness as a part of my life. The Saturday of Memorial Day weekend in 2010, my sister in Massachusetts called to tell me that my father had had a seizure while driving with my mother, had been diagnosed by the doctors at Newton-Wellesley Hospital with a brain tumor, and would be operated on at Mass General Hospital on Monday. His tumor, we learned after his operation, was an invariably fatal glioblastoma, the same type that killed Teddy Kennedy.

My father died in 2012. One Saturday morning in April he was walking around a pond, his optimistic spirit if not his mind intact. A day and a half later he was gone. Sadness remains.

A second reason for possibly moving closer to balance involves a shift in my teaching and research focus over time from business law to business ethics. For me, law, like politics, powerfully stimulates the point–counterpoint, righteousness–first part of myself. Ethics, not so much. Happiness surfaces more easily; competitive fervor is less powerful.

Another reason I think I have come closer to balance relates to a fourth intellectual mentor, social psychologist Jonathan Haidt. I’ve gotten to know Jon in his new job as a business ethicist at New York University, where he runs a seminar with Bob that I attend. Jon’s work criticizing (and appreciating) righteousness among political believers and all the rest of us helped me to let go of my ambition to write a politics book, and to turn my book-writing focus toward business ethics.⁶

At long last, forty years after my fall afternoons in Cambridge with Professor Schelling, I am closer, I hope, to the spirit of calm and appreciation of all four of my intellectual mentors that I need to write a book that draws from them. What I have to say combines their modern approaches to games, to social science, and to criticism with a very old understanding of ethics as balance that is found in the classical West and also, in somewhat different versions, in other parts of the world. After reading this book, you will be able to draw on a new way of understanding ethics in general, and business ethics in particular, in terms of temperaments and games. That understanding may, I hope, be of assistance to you in attaining your own version of balance at home and at work.

Acknowledgments

To turn this book into reality, I have needed to learn from many people. I needed the guiding stars I wrote about in the Preface, Thomas Schelling, Duncan Kennedy, Robert Frank, and Jonathan Haidt. The idea of viewing the world in terms of games that I learned from Professor Schelling; the idea of flipping that I learned from Duncan; the idea of useful moral emotions that I learned from Bob; the idea of joining tradition with evolutionary psychology that I learned from Jon: Without these ideas, and the embodiment of them in people I looked up to and aspired to follow, I could not have written this book.

I have also needed to learn from my colleagues. Michael Santoro, with whom I have enjoyed conversations and collaborations for twenty years, was indispensable. By providing numerous close, searching, and helpful comments, and by assuring me that I already had the book written at a time when I felt very far from completion, he helped make his faith in me, and the book itself, real.

With Michael, I am very fortunate to be part of an excellent group of business ethics faculty at Rutgers Business School, which now includes Danielle Warren, Chris Young, Ann Buchholtz, and Michael Barnett. I am grateful to all of them, and to Danielle and Chris in particular for their many hours devoted to critiquing my work, and helping to make it better.

The pivot in my intellectual interests from law and politics to ethics and business that made this book possible could not have taken place without the leadership of my now-retired colleague Ed Hartman in building an ethics faculty at Rutgers. My midlife awakening to Aristotle and virtue ethics owes everything to Ed.

For her consistent support of my research and for providing an outstanding exemplar of calm, sanguine leadership as department chair of Supply Chain Management and Marketing Science, and since the beginning of this year as the new Dean of Rutgers Business School, I am very thankful to Lei Lei. The interdisciplinary department that she built and that I have been

happy to help administer as vice chair has been a great home for developing the ideas that turned into this book. All of my departmental colleagues have been helpful; particular thanks go to Arash Azadegan and Kevin Kolben, who have kept me on my toes in numerous conversations devoted to this book and other topics, and to my companions in department administration, Rosa Oppenheim, Jacqueline Perkel-Joseph, Corinne Schiavo, Dottie Torres, Shen Yenyurt, and Yao Zhao. I appreciate the helpful feedback I received on the book, and/or on projects that led to it, from colleagues in the department and other departments, as well as from colleagues in other schools, students, family, and friends: Ali Asani, Nicole Bryan, Bruce Buchanan, Chao Chen, Laura Chinchilla, Deirdre Collier, Jennifer Crohn, Emilio De Lia, David Dobrzykowski, Carolyn Eastman, Carroll Eastman, Rebecca Eastman, Stephanie Eckerd, Bob Frank, Georgiana Hart, Leon Fraser, Pierre Gagnier, Michelle Gittelman, Jon Haidt, Darcy Hall, Jonathan Hall-Eastman, Caroline Hall-Eastman, Mary-Ella Holst, Nien-he Hsieh, Duncan Kennedy, Rose Kiwanuka, Terri Kurtzberg, Don Klock, Farrokh Langdana, Eric Larson, Rudi Leuschner, Joe Markert, Ben Melamed, Yaw Mensah, Sean Pidgeon, Anne Quarshie, Guy Quinlan, Rusty Reeves, Dale Rogers, Gene Spiegle, Erich Toncre, Can Uslay, and Tom York.

For over two decades now, Rutgers Business School has been a congenial home for me. My father first started teaching at the school in 1964, and I grew up doing exercises that he gave to his organizational behavior students. Fifty years later, I am proud to be continuing his legacy. This is my book, but it is also his. His spirit as an optimist, organization man, and rebel—the spirit that I absorbed sitting at his knee with my sisters, listening to him strum the guitar and sing his business school song, “The Administrative Point of View”—is the spirit I have tried to give voice to here.

I am thankful to the academic business ethics community, embodied in the Society for Business Ethics and its journal, *Business Ethics Quarterly*. I want to single out two editors of *BEQ*, George Brenkert and Gary Weaver, who provided careful and critical feedback on articles that are part of the background to this book. I am also very thankful to Ed Hartman, Bob Frank, Jon Haidt, Bruce Buchanan, Eric Schoenberg, and the other organizers and supporters of the Paduano business ethics seminar at NYU, which for years has been an intellectual second home for me, and where I presented an early version of the ideas in this book.

Part of the book is rooted in a review article and other projects related to critical business ethics that I have been working on over the past few years. My key collaborator in these projects over the past two years has been Nicole Bryan. I am very grateful to her, both for her contributions to the critical business ethics enterprise and for her peripatetic energy in connecting with

people, which has served as an inspiration for me. I also want to acknowledge other scholars with whom I have worked on critical business ethics papers and presentations: Chris Young, Laura Chinchilla, Anne Quarshie, Sasha Poucki, Rose Kiwanuka, Yao Zhao, Kevin Lyons, Jason Stansbury, and Ed Wray-Bliss.

Another inspiration for this book lies in civic, political, and religious activity I have been engaged in over the past twenty years in my hometown South Orange, its sister community Maplewood, and its urban neighbor Orange. There are many people I have collaborated with, competed with, or both in those endeavors from whom I have learned, and to whom I am appreciative. Particular thanks go to Madhu Pai, Jeffrey Bennett, Andrea Marino, Mark Gleason, Jennifer Payne-Parrish, Andrew Lee, Fred Profeta, Don DeMarco, Barbara Heisler, Andrew Lee, Darcy Hall, Aisha Hauser, Yielbonzie Johnson, and Darrell Berger.

Producing a book is a team enterprise; I am very thankful to Leila Campoli of Palgrave Macmillan for taking a chance on me, to Mary Child for valuable editing and advice, and to Laura Chinchilla for the same.

I am also thankful to the hardware and software, to the many places, and to the people at those places, that were partners in getting this book written. Without the Phlegmatic Harmony I enjoyed with Dell, Typepad, Open Office, Microsoft Office, and a wide variety of workplaces, ranging from the Elephant House café across the park from my daughter Caroline's flat in Edinburgh, to my Rutgers offices in Newark and Piscataway, to coffee shops and libraries in South Orange, Maplewood, Plainfield, Newark, Summit, Westfield, Chatham, Orange, Madison, Montclair, New Brunswick, Little Falls, Paterson, Manhattan, Brooklyn, Barcelona, Singapore, and other locations, the book might well have never seen the light of day.

I am deeply thankful to my wife Darcy Hall, the person who more than anyone else over the last thirty years has supported and sustained me. I am also thankful to my children Jonathan and Caroline, who grew up hearing about different versions of this project. In recent years as adults, they have helped me grow up with them, and have given me much appreciated intellectual, emotional, and technical support on this final version.

Finally, I am thankful to all the writers itemized in the references, and to many more who are not, from whom I have learned. As one who has lived my life in considerable part through books, I feel extremely grateful to them, and to my mother for encouraging me as a young child to read, and to walk alone down the street to the library. I am very happy to be contributing at last to the great table at which I have supped for so many years.

Overview of the Book

The Temperaments	Active/Yang !	Reactive/Yin . . .
Positive :)	Sanguine :) !	Phlegmatic :) . . .
Negative :(Choleric :(!	Melancholy :(. . .

The Four Temperaments

The overarching idea of the book, illustrated in the figure above, is that we have an ethical nature that accords with the classical view of ourselves as divided into four temperamental quadrants. We have a Sanguine, happy quadrant; a Phlegmatic, practical quadrant; a Choleric, angry quadrant; and a Melancholy, sad quadrant. The basic reason for our four-part nature, I will suggest, is to equip us with the emotions and intuitions that allow us to solve four major kinds of social games that correspond to the four temperaments. Our cheerful, optimistic side enables us to do well in Sanguine, or Harmony, games; our pragmatic, calm side helps us in Phlegmatic games; our anxious, ashamed side helps us get along as well as may be in Melancholy games; and our righteous, punishing side helps us cope with Choleric, or Disharmony, games.

I have been inspired in writing this book by my students, and by the experience of being a teacher. As I worked to finish the book, I taught business ethics to executives in Singapore and to MBA students and undergraduates in New Jersey, and also taught ethics to second and third grade children in a religious education program. In what follows, I draw on all these classes, and on my years of teaching experience. Much as this book is highly abstract and theoretical in some respects, it is also intended to be highly practical, and useful to teachers and students. With that in mind, at the end of the introduction and each chapter I will offer suggestions on how the material in the section can be taught, whether to others or to oneself, and taken to heart.

Introduction: The Four Temperaments and the Four Games

In this book, I suggest that if we bring together the modern system of game theory with the classical system of the temperaments, or passions, we can make progress in understanding our ethical nature, which is not possible with either system alone. In realizing how happiness, anger, calm, and shame all help us solve social games, we can attain a better grasp of the logic of human social interactions and of all kinds of social interactions, including our sometimes frustrating, sometimes satisfying interactions with nonhuman actors, such as software programs and organizations. Together with other people, we can draw on our intuitions, our emotions, and our reason to do a better job in creating Harmony¹ with people, with nature, and with our material and abstract creations, in different moods—tranquil, compliant, competitive, and, especially, happy.

By combining game theory with the temperaments, we can also make progress in understanding business ethics as both a state of mind and an historical phenomenon. Business ethics, in the view that will be advanced here, is a distinctive way of solving social games that relies especially on the Phlegmatic,² practical, and pragmatic side of our nature. It is now historically ascendant, and has helped bring about our highly productive material and cultural order—but it is not, I contend, morally superior to other temperamentally based ethics that have been ascendant in earlier eras of human history.

The strategy of the book is inspired in part by the modernist interpretations of the classical Four Temperaments by George Balanchine, Paul Hindemith, and Tanaquil LeClercq in the 1946 ballet of that name. Balanchine's choreography and Hindemith's music—flowing and quiet in the opening Phlegmatic variation, jittery and aggressive in the closing Choleric variation, danced by LeClercq—were combined with simple black and white costumes of leotards and T-shirts, at the time a radical innovation in classical ballet. The ballet was better, more informed critics than

I have agreed,³ for not simply mimicking a classical worldview and classical balletic technique, but for fusing it with a stripped-down, abstract modernism. A similar point applies here. I hope, in this book, to marry good, true, and beautiful elements in the classical tradition of the temperaments with the same elements in another version of twentieth-century modernism: game theory.

At nearly the same time as Balanchine's ballet—in the deep ethical shadows cast by World War II, Hiroshima, and the Holocaust—John von Neumann, Oskar Morgenstern, John Forbes Nash, Thomas Schelling, and other intellectual pioneers developed a new, abstract rhetoric of matrices and mathematics.⁴ They used this new rhetoric to analyze the logic of social interactions of all kinds between all types of people and entities: prisoners, spouses, teenage daredevils, business competitors, the United States, and the Soviet Union. Their new rhetoric combined abstruse, esoteric language with powerful, highly disturbing hypothetical scenarios: the Prisoner's Dilemma, the Battle of the Sexes, Chicken, and the Stag Hunt. All of these stories—especially the uber-story of the new rhetoric, the Prisoner's Dilemma—embodied a troubling message about the tension between logic and virtue: To be perfectly informed and logical—to clearly understand one's interests, and to act on that understanding in a perfectly rational, calculating fashion in a game with another person who was equally perfect—was to fail in achieving what you and the other player desired together. Your individual interest and your collective interest were at war. Rationality and ethics, far from being conjoined, were locked in struggle.

More than sixty years have passed since the doom-haunted 1940s that gave birth to game theory. From its origins as a field centered on calculating human actors, game theory, in its rising, evolutionary form, has broadened its focus.⁵ It now offers itself to us as a way to understand the logic of all kinds of interactions—games—between entities of all kinds, whether or not they are calculating, conscious, or alive. This book is animated by a hope that the mood of our time has shifted sufficiently from the appropriately sad, self-reproachful one that ruled when game theory was born, and was reflected in the work of the pioneers of the field, to a more open-ended, balanced spirit. In our time, it has become possible, I hope, to advance a new, non-mathematical, humanistic, optimistic, temperament-based interpretation of game theory, one that is respectful of the calculating, relentlessly logical, and self-critical spirits that ought to rule in their place, but also of other, freer, more cheerful spirits that have their own proper domains. Advancing such an interpretation is the major intellectual project of this book.