A DEFENSE OF BUSINESS ETHICS
AND SOCIAL RESPONSIBILITY

Senior Honors Thesis (HONRS 499)

By

Julie A. Campbell

Ange Cooksey, Advisor

Ball State University
Muncie, IN

May 4, 2000

Date of Graduation:
May 2000
ABSTRACT

I will start my thesis with background research on business ethics, case theory and philosophy of law. I hope to do this utilizing the library and online sources that I have found are respectable and hold academic integrity. Once I have done this research I hope to defend business ethics and social responsibility from those that would argue against the application of such theories into corporate life. I will draw on several aspects of ethical theory, focusing on where we are going in the future, and how we are inadequately prepared to handle conflict within a corporation without the application and integration of business ethics.

I would like this thesis to be the first step in an ongoing pursuit of ethics in business, along with perhaps a corroborated effort in creating an ethics consulting company and/or website.
ACKNOWLEDGMENTS

I would like to thank my Savior and Lord, Jesus Christ, for being my companion and co-writer on this thesis and entire college career. I would also like to thank my advisor, Ange Cooksey, for her diligence in helping me finish this thesis and graduate on time. Additionally, there are many professors at Ball State whom have given me the thoughts and ideas that inspired this topic of investigation. I would also like to acknowledge the many years of support, prayers, and love given to me by my family. Finally, I would like to thank my husband Scott, who has been my best friend and loyal supporter through this last semester. Without his confidence in my abilities, and strength to deal with my inequities, I am afraid I may not have conquered this project. I am truly indebted to all who have contributed to my success at Ball State.
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In order to establish the place of ethical theories in American Business, it is necessary to address cynical views of social responsibility. In my readings I have come across some dilemma of whether social responsibility from businesses will result in lower profits, or lack of freedom for the company and individual. One such argument has come from conservative Milton Friedman in his article “The Social Responsibility of Business is to Increase Its Profits.” In his critique, Friedman raises several issues. First, he writes, a corporation is not a person, at least not in the way that would obligate it to social responsibility. Second, an executive for a corporation acts as an agent with sole responsibility to the shareholders in the form of making profits. If s/he is forced to also consider duty to social responsibility in the form of environmental or any other social benefits for the individual, then s/he will be failing to uphold his/her business agreement to the shareholders. Third, if a corporation starts to consider social responsibility, the inevitable outcome will be inflation, governmental intervention into corporate (private) affairs, and perhaps a ‘big brother’ mentality from corporations that would inhibit personal freedom. Friedman implies that this simply is not that with which a corporation should concern itself. A
corporation, while considering ethical custom and law, should concern itself with the sole responsibility of maximizing its profits (Friedman, 234-235).

Many people at first glance would say that they do not see Friedman’s philosophy being reflected by American Corporations. Hewlett Packard, Texas Instruments, Philip Morris, and UPS: all these Fortune 500 companies seemingly promote social responsibility, to their profit. However, many of the same companies that have promoted social responsibility have also inevitably fallen prey to litigation when their interpretation of ethical application has failed. I think it is fundamental to break down the elements of his theory in order to prove not only why ethical theory is important in business, but also how it can be effectively put together by knowing the different parts of a corporation and how they can and should work together. Providing these proper assessments of a corporation will shed light on fallacies of Friedman’s argument and should provide a basis for proper integration and implementation of ethical theory in business today. Business ethics cannot be supported because of any so-called predictable profit, but merely because corporations have an obligation to pay back society for the power it has been given (Davis, 169). This pay back comes in the form of respect and dignity for its employees, and proper respect and support given to the society in which it rests. Without this trust given and gained by society and corporation, an unspoken social contract is broken, and inevitably, the corporation will lose (Bowie, 43). So, given this information, critically analyzing Friedman’s article will provide some guidelines
for interpreting how and where a corporation should implement ethical decision-making.

Friedman first discusses that a corporation is not a person with responsibilities like the average businessman. This may be true. When we think of doctors, lawyers, or counselors, we see them as people supplying a personal service. We do not want our doctor pushing a surgery just because he wants the extra fame, experience or money. We feel the same way about a lawyer or a counselor. Subsequently, all three of these careers carry with them an ethical obligation to a Hippocratic Oath, The Bar Association Code of Ethics, or the APA. But this becomes more difficult when you hold accountable a company such as IBM. It becomes less a person and more an entity. However, if you break down this entity into its parts, you find the following:

Shareholders → Corporate Executives → Employees

People make up all these designations. So, a corporation is made up of people. These people have their personal agendas and responsibilities that affect the outcome of each day of work and each decision on company welfare. But do we say that the decisions of the whole company rest on what one person, or indeed many people at one given time decide will benefit the whole company? I think we all know that there are policies for decision making that every corporation sets up to
provide templates for how a board or CEO will make decisions. Personal opinion certainly matters, but I do not think anyone could concede that when a mistake happens, it is solely the fault of one or more individuals. Rather, it could also be the case that these bad decisions were the result of interactions between board members who based their opinions on the procedures and objectives set forth by the corporation. This distinction provides some basis for how, apart from an individual, a corporation can be held responsible (Beauchamp & Bowie, 128).

Friedman's second issue has to do with the responsibility of the corporate executive to the shareholders. He says their sole responsibility to the shareholders is to ensure profits. All shareholders then, have to solely be interested in profits, and nothing else. Additionally, they would have to ask from the executives a promise to hold to profits regardless of the detriment to the environment, or irrespective of the law (Stone, 240). This does not seem to be the case. It has been suggested that investors today are looking for more than a company with a huge pocketbook (Trevino, 35). Shareholders may just as well be interested in a company that invests in the environment, and in its own employees as a valuable asset. Additionally, a shareholder may be looking for management that knows how to define profit as more than fiscal gain. Perhaps a shareholder would see a person knowledgeable in how to make money and good public relations in the form of social responsibility as a rare commodity for the corporation, not as someone who breaks a promise to only consider fiduciary gain. Interestingly enough, it has also been proposed that stating
this ‘promise’ to shareholders is merely a lame excuse for an executive not to take responsibility. In reality, do shareholders really have as much claim to power and control as they used to? And if they do, do they take it? It seems the trend in the last few decades was to turn corporation ownership from private to public. More people owning more stock decreases the power of the individual stockholder. In this event, individual stockholders have more of a passive voice; control with decision-making rests more in the hands of management (Hoffman & Fisher, 187).

So for a variety of reasons, sole responsibility of profit to stockholders may not hold up to scrutiny. Stockholders should and are being more interested than just profits when investing in a corporation. Further, corporate executives and management also hold responsibility to consider more than the voice of the stockholder when making decisions. In a Fortune magazine article labeled, “New Ethics…or NO Ethics?” there is a concern in the Silicon Valley, or web world, that there are too many startup companies that take shortcuts to make money. They interviewed Connie Bagley, a Stanford Business School lecturer who studies Internet law as saying, “Because momentum is everything, you start to do whatever it takes not to break it. People tell themselves, I’m making incredible value for my shareholders, I’m making great money for my employees.’ And that gets very dangerous.” (Fortune, page 84) Why does it get very dangerous? The media (like Fortune magazine) is helping our society become more aware of what goes on in a
company, and with that education over the years has bred mistrust and consumer activism.

The management critique that Friedman uses comes under scrutiny as well. He reiterates that management should also consider themselves corporate agents, working for the stockholders, customers, and employees. If a manager takes on social responsibility, then s/he is working against the company; imposing taxes and then deciding how to spend them. I do not argue with the fact that an executive or manager is acting as a corporate agent. When an employee walks down the hall and sees the CEO walk by, that employee does not think, "There goes Susan." That employee is thinking about how Susan is the CEO, and how that affects positively or negatively the thoughts of that employee. Susan is an agent of the corporation, making decisions utilizing a corporate agenda, not her own. She may have been hired for her skills and successes, but she is expected to know the policies and procedures that a company has established for doing business. Additionally, she will be expected to continue to make the same or more earnings that the previous executive had made. There is definitely a pressure and responsibility to the employees and the shareholders to maintain a good profit margin. But it does not end there. Susan is also a person, in charge of many other people. She is not an entity like IBM or Microsoft. This makes Susan also a moral agent. She is a moral agent for herself, like every other employee, but as a manager or other executive in power, she also becomes a moral agent representing the corporation. It is the very
fact that she daily has to balance the interests and ethics of herself and many other people that makes it important for the corporation to provide ethical guidelines and procedures for her to look to in the face of ethical conflict. If we establish policies and standards in other areas of an industry to create consistent and quality ends, there is no reason why we should not consider doing the same to an industry’s ethics. I would think that providing these guidelines would not promote a ‘big brother’ mentality, but would protect a corporation from possible litigation. It could also help incorporate and train quality decision-making among employees. One example is Texas Instruments, which boast an ethics committee on their website. The corporation makes their employees carry a little card that states the ethics of TI. In the face of difficult decisions, TI encourages employees to ask themselves these particular questions:

- *Is the action legal?*
- *Does it comply with our values?*
- *If you do it, will you feel bad?*
- *How will it look in the newspaper?*
- *If you know its wrong, don’t do it!*
- *If you’re not sure, ask.*
- *Keep asking until you get an answer.*

Another example is Nortel. This corporation also has a Code of Business Conduct based on the principles of honesty, fairness, respect, and integrity.
"A reputation for integrity is a significant corporate asset. We know that acting with integrity builds credibility. I am committed to making Nortel Networks the most valued company in our industry for our customers, our employees, our shareholders, and the communities in which we work. We will accomplish this by conducting our business honestly and ethically wherever we operate in the world."

John Roth
CEO, Nortel

This company is not trying to inhibit freedom of thought. This company is trying to prevent miscommunication in areas that can easily be defined. In order not to have personal ethics interfere with what a particular company or industry needs, these companies are beginning to spell out for their employees what kind of behavior to expect. It is not unlike any other policy that is spelled out, giving an employee the chance to state their mind on the issue, or make up their mind that their personal ethics work against corporate expectations.

We are left to discuss the last listed part of a corporation, the employee. They are the company’s first and possibly most loyal customer, and people who have as much risk invested as a stockholder, in many ways much more risk. A stockholder may lose money, but employees can lose their jobs, insurance, benefits, and family security. They have made much more of an investment than a stockholder. It is for this point, and many others, that an employee’s needs must be considered. Taking a deontological mindset, every employee also becomes a moral agent, and as such, deserving of respect (Bowie, 44). Kant’s Categorical Imperative
states that humans be treated with respect and dignity because they are ends themselves, not to be treated as mere means to an end. This is the biggest problem with a corporation solely considering profits. A corporation profits because of the society that supports it and gives it the resources it needs to thrive, one of these resources being human labor. While profit is what makes or breaks a corporation, this profit should not be made at the expense of human dignity, integrity or pursuit of happiness. Corporate executives and managers have the power in this society to help people achieve their goals or to inhibit them from being happy and respected. These considerations should be made whenever there are tough decisions the board faces concerning profit. For example, consider a corporation that is beginning to lose money because of rising production costs. These costs are due to the fact that the union representing the company’s workers waged a successful strike resulting in increased salary and benefits. The second factor is more stringent safety regulations due to the carcinogenic nature of some of the company’s solvents. Finally, environmental regulations have made the company’s waste process more expensive. Shareholders complain to the CEO about the declining fortune of the company. The competitors have moved their operations to less-developed companies. The CEO does the research, and realizes that moving the plant to less-developed countries will indeed drop costs and increase profits. However, if the CEO closes a U.S. plant, the costs to the employees and to the community will be great. So, what decision would you make, if you were the CEO (Musalo, http://www.scu.edu/ethics)?
At this point if you merely try to please the stockholders, the plant will be moved. Or will it? As I have pointed out before, there are no guarantees that a stockholder will support the action you take. Just because they complain about lost profits does not mean they will support your company when you are heavily penalized in negative media and public relations because you took your business overseas. Additionally, as environmentally aware as we are becoming globally, taking shortcuts to go around more stringent safety regulations and costly waste disposal could put you in legal trouble. Finally, you have disregarded the feelings and needs of many of your employees just to abuse the poor people in a less-developed country, along with disrobing any loyalty to your own country. I realize many companies do this very thing and get away with it. But they are making an exception of themselves for the sake of profit. Ethically they would have failed to the standard of action stated by Kant in his Categorical Imperative. This states that you should do those things that you could will to be a universal maxim. One corporation that took those actions could not advise every other corporation to make the same decision. If every company made this decision, our American economy could not sustain itself.

Friedman's states in this last issue with Business Ethics that corporations are indebted only to do that which is dictated by ethical custom and law. I assume that when he talks about ethical custom he is not referring to the same thing that I think about when discussing ethical custom. I think about the current mindset in our
society towards ethics in the workplace. I think about companies like Texas Instruments, Nortel, Hewlett Packard, Philip Morris and UPS. All companies who like to implement environmental support programs and better regard for ethical decision making models integrated into their business. This to me implies that ethical custom in our society is bending to demand corporate consideration of more than profits. In fact it has been proposed that the period of time from 1973-1980 was the start of the era of social responsibility, a time when corporations were forced to take our pleas to change seriously. At this time corporations tried to create some ethical policies to stave off further external regulation. But even with the legislation and the corporate intentions, society is still currently distrusting and demanding more attention to the ethics of the workplace (Sims, 2). Regardless, I think what Friedman was intending was merely a polite nod at our ethical dilemmas and more of a reverence toward the legal system. But will the law really protect the corporations? If so, is it not just as limiting to the freedom of a corporation to lean on the many regulations and legislation passed about the workplace? I would think that Friedman would support corporate policing versus having the government come up with all the restraints. He states that there is nothing that could do more in a brief period to destroy a market system and replace it by a centrally controlled system than effective governmental control of prices and wages (Friedman, 237). How can he think that social responsibility will create that scenario? I believe Christopher Stone put it best when he retorts to Friedman’s argument:
"Certainly, to the extent that the forces of the market and the law can keep the corporation within desirable bounds, it may be better to trust them to have corporate managers implementing their own vague and various notions of what is best for the rest of us. But are the "Antis" blind to the fact that there are circumstances in which the law-and the forces of the market-are simply not competent to keep the corporation under control? The shortcomings of these traditional restraints on corporate conduct are critical to understand, not merely for the defects they point up in the "Antis'" position. More important, identifying where the traditional forces are inadequate is the first step in the design of new and alternative measures of corporate control." (Stone, 242-243)

What Stone is saying is that the law cannot protect the corporation over every conceivable outcome, nor can it predict what the right thing to do is 40 years from now. This should be seen with the example of the Love Canal. The law is just purely inadequate. It is not morality, even though it is a representation of our moral history and the phraseology of the law is drawn from that of morals. However the point is that not every right conceivable by man can or will be represented in our Constitution or any other sanction of laws (Holmes, 40). Further, the law has been phrased as simply the 'art of prediction' (Frank, 47), and something that a bad man, who shares nothing of conscience with that of a good man, but rather who cares merely at avoiding an encounter with a fine or jail, will take interest in (Holmes, 40). What Christopher Stone says is correct. The traditional restraints and forces have been inadequate in dealing with our current business trends, and will certainly not cover our future business trends.
"In an unusual posture for law enforcement, the Justice Department is touting ethics education as a potentially powerful tool for addressing computer crime, from theft of intellectual property to digital vandalism. It has earmarked $300,000 this year as seed money to develop curricula, identify successful programs and spread the word that kids need ethical as well as technical education to become successful citizens in the Internet age."

(www.usatoday.com/life/dcovthu.htm)

Kids are not the only ones who need this education. We are living in a world of technology in which we stare at a screen, not someone’s face. We perceive computer crimes as games or intellectual challenges and our actions as playing. The Internet is like a magical dream, not a reality; therefore we do not feel responsible for what we are doing (Floridi, 4). Further, we have technology that advances so quickly in a week that we do not know what rules for engagement are needed. Companies can come up with a genetically altered seed to sell farmers that will only be good for one year. Additionally, we have completed the human genome project, and companies are bidding on what parts of our DNA they can own. Knowing that the power of genetic information and production could rest in the hands of a corporation that does not consider anything other than money scares me. Thinking that the government alone can regulate, or should, regulate these activities concerns me even more.

"The old business paradigm no longer works in an age of global knowledge enterprises, instant communication, and ecological limits. When the old paradigm no longer works, paradigm shift occurs."

(Trevino & Nelson, 40)
We need a different way to handle business. Friedman’s ideals will not hold in today’s world. We need accountability in a way that the government cannot even begin to regulate. And you just cannot legislate the morality we need. The reason why you see good companies investing in ethical pledges is because they see the worth of instilling the Aristotelian virtue of integrity in each and every individual. It is not just a trend that corporations are beginning to catch on to; it is a necessity to maintain the kind of freedom that our society dictates. If corporations can police themselves, we will not need defensive ethics or legalese to protect us from the onslaught of lawsuits we can have from one single employee saying or doing the wrong thing. That is not corporate freedom. And although I strongly support the notion of company codes of conduct, I suggest a stronger step. I think that every industry should establish an ethical code. Every industry should know the virtues and procedures within their business specifications that will lend to good business practice. Pepboys will have a need for a different code of conduct and different definitions of virtues, than a Barnes and Nobles.

There is a concern that if there were codes of conduct, would there also be a way to guarantee that a company that did the right thing would not end up being penalized financially? I initially want to state that there are never any guarantees with doing the right thing. It may benefit you, it may not. However, if an industry supports an ethics code, any corporation that lives up to it should be protected from losing profit due to the fact that every corporation is influenced to live up to the
same code. There will be an internal policing system, and to remove yourself from it would be the financial loss, not the other way around.

Another way of handling the future of business interaction is to create an entire new way of looking at ethics. Throughout this thesis instance of deontological, virtue, and consequentialist theory apply. However, the argument could be made that these theories, in themselves, do not adequately provide the answers that business people need to handle ethical dilemmas in the workplace. So universities, working in conglomeration with companies such as Arthur Andersen, are coming up with theories that can handle these issues with better resolution. One such example is the Case Ethics theory. It is not necessarily introducing new theories, but editing the personal theories we have had for years into a more acceptable venue for executives and management. In this theory, an ethical decision making model is invented and applied wherever difficult business decisions come up. For example, perhaps your company is debating the aforementioned case of moving your plants to another country to cut costs. In order to solve this dilemma, an ethics consultant might teach your corporation a decision making model labeled VCR (Mertzman & Madsen, 1992):

\[
V = \text{Virtue} \\
C = \text{Character} \\
R = \text{Rights}
\]
This model not only incorporates the typical ethical theory, but it also considers legalities in the workplace. This model, as represented by the word ‘Case Ethics’ is a model that can be applied case by case. This is a good teaching model for management, employee, and student.

Additionally, one might consider reconstructing ethical theory even further, as in the case of Cyber Ethics (Floridi). This is not just a case model; it is an ethical theory that is pushing to gain respect in the philosophical world as well as the business world. Due to the intricate nature of technology, and the way that it weaves into every aspect of our lifestyles and existence, there are many people who believe that our entire way of right and wrong needs to be rewritten with the culture of technology included. In doing so, better application of ethics to business and life endeavors could ensue.

In this day and age a corporation cannot afford to be uneducated about ethics. Regardless of Friedman’s notion of freedom, we have all agreed by right of citizenship to respect the rights and pursuits of those around us. We are not at liberty to take advantage of that in any way shape or form. Stating that a corporation is not a person is not an excuse, nor is it fact. It is fact that to make a corporation you need many people, in different roles. You need investors, people who can give the money to make the corporation succeed. These investors probably play many roles. It cannot be assumed that the person who wants to see company “A” profit, wants to go home and drink water filled with carcinogens because company “A” gave up
proper waste procedures to gain such profit. Corporate executives and managers are also people in a corporation that play a huge role in its success and profit...probably in today's era more than ever. While there is pressure to consider this profit over anything else, the cost of putting profit first at all times must be considered. Corporate executives not only represent the corporation, they are also people put in limited power over other people. This moves them into the category of moral agent as well, with responsibility to treat their employees with dignity and respect. Finally, employees of a corporation are people that provide the corporation with the time and labor it needs to get the job done every day. They also have a responsibility to be ethical to their managers, and to the company investment in them. They should not steal, or cheat, or lie in order to get ahead. This would also be violating the needs and rights of the individuals they work for and the individuals they work with. They could easily become a liability financially and legally to the corporation, and it is for this reason that a corporation should create and promote a code of ethics, and educate its employees of this code and its implications.

It is difficult in this day and age to know how to handle every ethical dilemma in the workplace, and that is why new ways of handling such dilemmas are being sought after. Whether it is the creation of industry standards of ethics, Cyber Ethics or Case Ethics, it is apparent that there is a need for good ethical models. More and more companies are maintaining a vested interest in knowing how to do the right thing at the right time in the right way. It may be because they are finding
out that being ethical is profitable, or that not being ethical is very unprofitable and
time consuming, or that relying on government intervention and legislation is
inhibiting and worrisome. My hope is that ethics in the workplace is important to
companies because there is a right and wrong way of doing things and treating
people. As people in a company we are obligated to look over all our actions and
see if we treated others correctly or incorrectly. If we treated them correctly, we
should be proud. If we did not treat them correctly, we should apologize and remedy
the situation. We like to make corporate life into this complicated moral enigma,
but really the equation for living in a corporation is the same for living away from
work. That is, regardless of situation, decision or profit margin for a corporation, we
need to respect every person’s right to autonomy, respect, dignity, and integrity.
Anything that interferes with these rights should not be pursued.
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