

**Business Ethics/Corporate
Social Responsibility Overview**

**Business Ethics &
Corporate Social Responsibility**

- What is the nature of the corporation?
- What does this view imply about managerial responsibility?
- What is the relationship between economic rationality, the law, and moral truth?

**Business Ethics &
Corporate Social Responsibility**

- The corporation as a legal entity
- The corporation as an economic entity
- The corporation as a social entity
- The corporation as a moral entity
- The corporation as a religious entity

Discussion Questions...

- So...what is the primary function of an economy? Does free-market capitalism achieve this function?

Discussion Questions...

Consider the following, from Bellah et al. The Good Society:

- "We often hear that only technical reason can really be taught, and our educational commitments from primary school to university seem to embody that belief...But technical reason alone, as we have seen, is insufficient to manage our social difficulties or make sense of our lives..."

Discussion Questions...

...Even when we see that the solution must have something to do with institutions, we once again look for a technical solution in some kind of "management science" rather than trying to understand the inherently moral nature of institutions...

Discussion Questions...

- How does your graduate educational experience so far 'square' with the preceding claim?
- What education and/or experience have you had with the 'moral' side of corporations?
- In what ways do you factor such considerations into your managerial decision-making?

Ethics of Management (Hosmer)

➤ Message: Organizational *economic* performance conflicts with organizational *social* performance

– Obligations to internal vs external stakeholders

Ethics of Management (Hosmer)

➤ Ways to balance *economic* and *social* corporate performance:

- 1) Economic...based on impersonal market forces
- 2) Legal...based on impersonal social forces
- 3) Philosophical...based on personal principles and values

Ethics of Management (Hosmer)

➤ [free-market capitalism] in its complete form is more a *normative* theory of society than a *descriptive* theory of the firm

The Heroic Enterprise (Hood)

➤ One of the fundamental distinctions in philosophy is the “is—ought” dichotomy. To describe what is does not necessarily describe what ought to be; however, sometimes a descriptive discussion can lead to normative conclusions

Discussion Questions...

In ‘The Capitalist Threat’, George Soros points out that...

- The main scientific underpinning of the laissez-faire ideology is the theory that free and competitive markets bring supply and demand into equilibrium and thereby ensure the best allocation of resources. This is widely accepted as an eternal verity, and in a sense it is one...

Discussion Questions...

...Economic theory is an axiomatic system: as long as the basic assumptions hold, the conclusions follow. But when we examine the assumptions closely, we find that they do not apply to the real world.

Discussion Questions...

- What are the assumptions underlying free-market capitalism?

The Heroic Enterprise (Hood)

- “The assumption that profit is inconsistent with the common good of the society is predicated on a tension between making money and serving one’s fellow man...”

The Heroic Enterprise (Hood)

- ...But if the pursuit of profit really does, as Adam Smith said centuries [a]go, act as 'an invisible hand' guiding human action toward socially beneficial endeavors, then surely to abandon that pursuit is to lose social benefits that would otherwise exist."

Discussion Questions...

- Upon what view of human nature is the notion of the free market based?
- Is this an 'accurate' view?
- What evidence can you offer in defense of your answer?
- Is human nature subject to change?
 - If so, *how* is it changed?

Ethics of Management (Hosmer)

➤ Pragmatic objections to microeconomic theory:

- The exclusion of segments of society
- The presence of injurious practices
- The absence of competitive markets

Ethics of Management (Hosmer)

➤ Theoretic objections to microeconomic theory:

- Assumptions about the value of human beings
- Assumptions about the nature of human beings

Ethics of Management (Hosmer)

➤ Relationship between the law/moral standards:

- The requirements of the law overlap but do not duplicate the probable moral standards of society
- The requirements of the law tend to be negative, while the standards of morality more often are positive
- The requirements of the law tend to lag behind the apparent moral standards of society

Ethics of Management (Hosmer)

- The law is a guide to managerial decisions and actions, but it is not enough. And certainly, the absence of a law is not enough to excuse some of those decisions and actions. We need something more.
- we [suggest] the fundamental norms and absolute values of [ethics] as a possible means of providing that 'something more.'

Ethics of Management (Hosmer)

➤ Ways to balance *economic* and *social* corporate performance:

- 1) Economic...based on impersonal market forces
- 2) Legal...based on impersonal social forces
- 3) Philosophical...based on personal principles and values

Discussion Questions...

It has been stated (ref: *The Good Society*) that...

"what we have often forgotten is that though economic markets operate in some ways through an autonomous logic of their own, they can exist only because of certain institutional arrangements..."

Discussion Questions...

- What is the relationship between government and economics?
- Does one 'type' of economic system presuppose the existence of one 'type' of political system?
- Why or why not?

Ethics of Management (Hosmer)

- Organizational pressures may tend to push the decision away from the *social* performance and towards the *economic* performance of the firm

Business Ethics &
Corporate Social Responsibility:
The Legal View

- What are the benefits of the corporate form of ownership, vis-à-vis other legal ownership structures?

Business Ethics &
Corporate Social Responsibility:
The Legal View

- Trusteeship Model
 - Trustor
 - Trustee
 - Beneficiary

**Business Ethics &
Corporate Social Responsibility:
The Legal View**

Funds received by the Church would be used for charitable purposes, for the appropriate level of support of the clergy, or for the aggrandizement of the Church and its interests, but the cleric in charge could not legally appropriate the goods of his church for his own support or enjoyment beyond a reasonable living...

**Business Ethics &
Corporate Social Responsibility:
The Legal View**

...ecclesiastical property-holding gave birth to corporation theory. In trying to explain the roles of bishops, lower clergy, and laity, medieval lawyers ultimately decided that each church was an entity distinct from the persons who made up the church...

**Business Ethics &
Corporate Social Responsibility:
The Legal View**

...the fictional person, the corporate entity, theoretically lived forever, and theoretically this fictional person had property rights and interests of its own...

**Business Ethics &
Corporate Social Responsibility:
The Legal View**

...vis-à-vis the corporate church, the clergy were agents or representatives, subject to fiduciary duties.

Discussion Questions...

It has been stated (ref: *The Good Society*) that...

The corporation is a central institution in American life...

As an institution it is a particular historical pattern of rights and duties, of powers and responsibilities, that make it a major force in our lives...

Discussion Questions...

...Individual corporations are organizations that operate within the legal and other patterns that define what a corporation is.

Discussion Questions...

- What does it take to be considered a 'moral entity'?
- Can the corporation appropriately be considered a moral entity?
- Why or why not?

Business Ethics & Corporate Social Responsibility: The Moral View

- Ethics is concerned with the following:
- Good vs Bad
 - Right vs Wrong
 - Fair vs Unfair
 - Praise vs Blame

Social Contract Theory

Morality consists in the set of rules, governing how people are to treat one another, that rational people will agree to accept, for their mutual benefit, on the condition that others follow those rules as well.

Social Contract Theory

Only an enforceable agreement can provide a way out of the dilemma, for either of you...what Garret Hardin refers to as *mutual coercion, consistently applied*.

Business Ethics & Corporate Social Responsibility: The Social View

➤ For whose benefit ought the corporation act?

The Heroic Enterprise (Hood)

➤ *Dodge v. Ford*: "A business corporation is organized and carried on primarily for the profit of shareholders. The powers of directors are to be employed to that end..."

The Heroic Enterprise (Hood)

➤ “Friedman points out that individual employees, consumers, and shareholders have the right—indeed, the responsibility—to refuse to participate in economic activities whose social effects they fear or that violate their personal ethical or religious beliefs...”

- The exclusively economic definition of the purpose of the corporation is a deadly oversimplification, allowing overemphasis on self-interest at the expense of consideration of others.
--Kenneth Andrews

- Man...ought to regard himself, not as something separated and detached, but as a citizen of the world, a member of the vast commonwealth of nature...to the interest of this great community, he ought at all times to be willing that his own little interest should be sacrificed.
--Adam Smith
