Notice that if in the loyal agent's argument we replace *employer* with *government*, and *manager* with *officer*, we get the kind of argument that Nazi officers used after World War II to defend their murder of about 6 million Jews and others that Hitler's government labeled "undesirables." When they were captured and brought to trial, the Nazi officers repeatedly defended their actions by claiming: "I had to do it because I had a duty to serve my government by following its orders."

It takes only a little reflection to realize that the loyal agent's argument rests on questionable assumptions. First, the argument tries to show that ethics does not matter by assuming an unproved moral standard. The assumed standard is "the manager *should* serve the employer in whatever way the employer wants to be served." However, there is no reason to think that this moral standard is acceptable as it stands. If an employer orders a manager to perform a criminal act, the manager certainly would not have a duty to obey. To be acceptable, then, the standard would have to say something like this: "the manager should serve the employer in whatever *moral* and *legal* way the employer wants to be served." Second, the loyal agent's argument assumes that there are no limits to the manager's duties to serve the employer. In fact, such limits are an express part of the legal and social institutions from which these duties arise. An agent's duties are defined by what is called the **law of agency**. The law of agency is that part of commercial law that specifies the duties of persons—"agents"—who agree to act on behalf of another party—the "principle." Lawyers, managers, engineers, stockbrokers, and so on all act as agents for their clients or employers. By freely entering an agreement to act as someone's agent, then, a person accepts a legal (and moral) duty to serve the client loyally, obediently, and in a confidential manner as specified in the law of agency.[33] But the law of agency states that when determining whether a client's or an employer's orders are "reasonable" and should be followed, the agent must take "business or professional ethics" into account. The law of agency specifically indicates that an agent never has a duty to do what a client, employer, or other principle asks the agent to do if it would require performing an act that is "illegal or unethical." [34]

The manager's duties to serve the employer, then, are limited by the constraints of ethics, since it is with this understanding that the duties of a loyal agent are defined. Finally, the loyal agent's argument assumes that once a manager agrees to serve an employer, whatever the manager does for his employer is justified. However, this assumption is false. An agreement to serve an employer does not automatically justify doing wrong on his or her behalf. If it is wrong for me knowingly to put people's lives at risk by selling them defective products, then it is still wrong when I am doing it for my employer. Agreements do not change the moral character of wrongful acts, nor does the argument "I was following orders" justify them.

IF IT IS LEGAL, IT IS ETHICAL A third kind of argument is sometimes made against bringing ethics into business. This is the objection that to be ethical it is enough for businesspeople to follow the law: If it is legal, then it is ethical. For example, managers at financial company Goldman Sachs were accused of helping Greece hide loans larger than European Union rules allowed. Goldman Sachs's managers allegedly disguised the loans as currency exchanges that legally did not have to be disclosed as debt. Greece's debt eventually got so huge that, in 2010, it threw Greece and then the entire European Union into a financial crisis whose consequences continue to reverberate. Goldman Sachs's managers were accused of behaving unethically because they helped Greece hide debt that was more than it could handle. In response, the managers excused themselves with the statement that "these transactions were consistent with European principles [laws] governing their use and application at the time."[35] Since it was legal, they were saying, it was ethical.

It is wrong, however, to see ethics as no more than what the law requires. It is true that some laws require behavior that is the same as the behavior required by our moral standards. Examples of these are laws that prohibit murder, rape, theft, fraud, and so on. In such cases, law and morality coincide, and the obligation to obey such laws is the same as the obligation to be moral. However, law and morality do not completely overlap. Some laws have nothing to do with morality because they do not involve serious matters. These include parking laws, dress codes, and other laws covering similar matters. Other laws may even violate our moral standards so that they are actually contrary to ethics. Our own pre-Civil War slavery laws, for example, required us to treat slaves like property, and the laws of Nazi Germany required anti-Semitic behavior. The laws of some Arab countries today require that businesses discriminate against women and Jews in ways that most people would say are clearly wrong. So it is clear that ethics is not simply following the law.

This does not mean, of course, that ethics has nothing to do with following the law.[36] Many of our moral standards have been incorporated into the law because enough of us feel that these moral standards should be enforced by the penalties of a legal system. On the other hand, laws are sometimes removed from our law books when it becomes clear that they violate our moral standards. Our moral standards against bribery, for example, were incorporated into the Foreign Corrupt Practices Act, and only a few decades ago it became clear that laws permitting job discrimination—like earlier laws permitting slavery—were unjust and had to be changed. Morality, therefore, has shaped and influenced many of the laws we have.

Moreover, most ethicists agree that all citizens have a moral obligation to obey the law so long as the law does not require clearly unjust behavior. This means that, in most cases, it is immoral to break the law. Tragically, the obligation to obey the law can create terrible conflicts when the law requires something that the businessperson knows or believes is immoral. In such cases, a person will be faced with a conflict between the obligation to obey the law and the obligation to obey his or her conscience. Such conflicts are not unusual. In fact, you the reader will likely have to deal with such a conflict at some point in your business life.

1.2.6: The Case for Ethics in Business

We have looked at some arguments that try to show that ethics should not be brought into business. Is there anything to be said for the other side—that ethics should be brought into business? Offhand, it would appear that ethics should be brought into business because ethics should govern all human activities and business is a human activity. There is nothing special about business that prevents us from applying the same ethical standards to business that we apply to all human activities.

In fact, a business cannot exist unless the people involved in the business and its surrounding society adhere to some standards of ethics:

1. Any individual business will collapse if all of its managers, employees, and customers come to think that it is morally permissible to steal from, lie to, or break their agreements with the company. Since no business can exist entirely without ethics, every business requires at least a minimal adherence to ethics on the part of those involved in the business.
2. All businesses require a stable society in which to carry on their business dealings. Yet, the stability of any society requires that its members adhere to some minimal standards of ethics. In a society without ethics, as the philosopher Hobbes once wrote, distrust and unrestrained self-interest would create "a war of every man against every man," and life would become "nasty, brutish, and short." The impossibility of conducting business in such a society—one in which lying, theft, cheating, distrust, and unrestrained self-interested conflict became the norm—is shown by the way in which business activities break down in societies torn by strife, conflict, distrust, and civil war. Since businesses cannot survive without ethics, then it is in the best interests of business to promote ethical behavior both among its own members as well as within its larger society.[37]

Is there any evidence that ethics is consistent with what most people see as the core of business: the pursuit of profit? To begin with, there are many examples of companies in which good ethics has existed side-by-side with a history of profitability. Companies that have combined a good history of profit with consistently ethical behavior include Levi Strauss & Co., Gap, Inc., Cummins Inc., Accenture, Intel, Google, Granite Construction, Colgate-Palmolive Company, Mattel, Inc., Applied Materials, Visa Inc., Kellogg Company, Weyerhaeuser Company, Baptist Health South Florida, Deere & Company, Eaton Corporation, Blue Shield of California, Starbucks Coffee, Whole Foods Market Inc., Petco Animal Supplies Inc., Cisco Systems, and United Parcel Service.[38] But many chance factors affect profitability such as overcapacity in a particular industry, recessions, weather patterns, interest rates, and changing consumer tastes. Consequently, these companies may be nothing more than the few companies in which ethics by chance happened to coincide with profits for a period of time.

There are, then, good reasons to think that ethics should be brought into business. Taken together, the arguments above—some philosophical and some more empirical—suggest that businesses are shortsighted when they fail to take the ethical aspects of their activities into consideration.

Quick Review 1.4
Arguments Supporting Ethics in Business

- Ethics applies to all human activities.
- Business cannot survive without ethics.
- Ethics is consistent with profit seeking.
- Customers, employees, and people in general care about ethics.
- Studies suggest that ethics does not detract from profits and seems to contribute to profits.

1.2.7: Business Ethics and Corporate Social Responsibility

Business ethics is sometimes confused with corporate social responsibility (CSR). Although the two are related, they are not quite the same. It is important to understand how they are different as well as how they are related to each other. We will begin by clarifying what CSR is because this will help us understand how business ethics and CSR are related. Note also that theories of CSR provide answers to the important question: What is the purpose of business?

The phrase *corporate social responsibility* refers to a corporation's responsibilities or obligations toward society.

Some disagreement exists about what a corporation's responsibilities or obligations include. Do companies have a responsibility to donate to charities or to give their

Positive Business Effects of Ethical Practices

Is there any evidence that ethics in business is helpful to business? That is, what can be said for the proposition that good ethics is also good business?[39, 40, 41, 42, 43, 44, 45, 46, 47, 48]

Interactive

Promotion of Trust and Cooperation

Avoidance of Reprisal

A lot of research in social psychology shows that people in all kinds of social situations respond to perceived injustices with moral anger—whether the injustice is directed against themselves or others—and this anger motivates them to attempt to restore justice by punishing the party that inflicted the injustice. Employees who feel their company's decision-making processes are unjust will exhibit higher absenteeism, higher turnover, lower productivity, and demand higher wages. Customers will turn against a company if they perceive a gross injustice in the way it conducts its business and will be less willing to buy its products. Customers and employees who feel a company has behaved unethically, for example, now sometimes start critical websites such as *complaintsboard.com*, *ripoffreport.com*, *pissedconsumer.com*, and *screwedcentral.com*.

On the other hand, when people feel that an organization is treating people fairly, they will reward it with loyalty and commitment. For example, when employees feel that an organization's decision-making processes are just, they exhibit lower levels of turnover and absenteeism, show higher levels of trust and commitment to the company and its managers, and demand lower wages. When employees believe an organization is just, they are more willing to follow the organization's managers, do what managers say, and tend to see managers' leadership as legitimate. In short, unethical behavior breeds reprisals, while ethical behavior breeds cooperation.

Increased Success

employees higher wages and customers safer products? Or are they obligated to maximize profits for their shareholders or stockholders?

One view of CSR is a view that many accept and that was articulated by the economist Milton Friedman. His view is that businesses should serve only the interests of shareholders and no one else.

STAKEHOLDER THEORY A view of CSR that is very different from the shareholder theory of Milton Friedman is a view called stakeholder theory. According to Edward Freeman and David Reed, two scholars who pioneered this view, a *stakeholder* is "any identifiable group or individual who can affect the achievement of an organization's objectives or who is affected by the achievement of an organization's objectives."[49] In other words, a stakeholder is anyone that can harm, benefit, or influence the corporation, as well as anyone the corporation can harm, benefit, or influence. A stakeholder, in short, is anyone who has a stake in what the company does.

For example, General Motors influences the lives of its customers when it decides how much safety it will build into its cars, it benefits employees when it raises salaries, it harms the local community when it shuts down a plant, and it benefits its stockholders when it increases their dividends. On the other hand, government can influence General Motors through the laws and regulations it passes, creditors can harm it by raising their interest rates or calling back a loan, and suppliers can benefit it by lowering their prices or raising the quality of the car parts they supply. General Motors' stakeholders, then, include customers, employees, local communities, stockholders, government, creditors, and suppliers. Of course, the influences between the company and its stakeholders can go

Evaluating Milton Friedman's Shareholder Theory

An extreme but traditional view of CSR is the view espoused by the late economist Milton Friedman. Friedman argued that in a "free enterprise, private-property system," corporate executives work for the "owners" of the company. Today these owners are the company's shareholders. As their employee, the executive has a "direct responsibility" to run the company "in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom."[50]

Interactive

Milton Friedman's View

In Friedman's view, a company's only responsibility is to legally and ethically "make as much money as possible" for its owners; that is, to maximize shareholder returns. We can call his view the "shareholder theory" of CSR. The main reason why Friedman held this theory was that, in his view, shareholders own the company. Since the company is their—and only their—property, only they have the moral right to decide what it should be used for. These "owners" hire executives to run the business for them. So the executives have a moral obligation to do what the stockholders want. Moreover, what stockholders want, he claimed, is to make as much money as possible. Friedman did not say, however, that there are no limits to what executives can do to make stockholders as much money as possible. Executives, he explicitly said, must operate within the "rules of society," including both the rules of the "law" and the rules of "ethical custom."

Details of the Shareholder View

Criticisms of the Shareholder View

both ways. For example, although General Motors influences its customers and employees, customers can also influence General Motors by refusing to buy its cars, and employees can impact General Motors by going on strike. Other groups also are sometimes able to influence General Motors. For example, environmental activists or the media can impact General Motors by organizing demonstrations or by reporting on a safety defect of General Motors' cars. Thus, activist organizations, the media, and other interest groups can also become stakeholders of General Motors.

Unlike Friedman's shareholder theory, which says the corporation should be run for the benefit *only of its shareholders*, stakeholder theory says that a corporation should be run for the benefit of *all stakeholders*.

According to stakeholder theory, a manager should take all stakeholder interests into account when making decisions.

Managers should try to balance the interests of stakeholders so each stakeholder gets a fair share of the benefits the corporation produces. The manager, then, has the responsibility of running the company in a way that will best serve the interests of all stakeholders, not just stockholders.

Notice that stakeholder theory does not claim that managers should not try to make a profit; it does not even claim that managers should not try to maximize profits.

The claims of stakeholder theory are about *who should get* the profits. Friedman's shareholder theory says that the manager should try to maximize what goes to the stockholder, which means it should try to minimize what goes to other stakeholders (except, of course, when giving some stakeholders more would make even more profits for stockholders). Stakeholder theory, on the other hand, says that the manager should give stockholders a fair share of profits, but in a way that allows all other stakeholders to also get their fair share. This may mean, for example, investing in better working conditions for employees or in safer products for consumers, or in reducing pollution for the local community, even if doing so reduces the share of profits stockholders would get. Stakeholder theory, then, rejects Friedman's view that resources should not be used to benefit other stakeholders at the expense of shareholders.

EVALUATING THEORY AND THE BUSINESS-ETHICS RELATIONSHIP Which of these two views is correct: stakeholder theory or shareholder theory? Today, many businesses accept stakeholder theory, and most of the fifty U.S. states have passed laws that recognize business' obligations to its many stakeholders even at the expense of stockholder interests. will have to decide for themselves which theory makes the most sense and seems most reasonable. The two theories are critical to one's view of the important question: What is the purpose of business? Shareholder theory says the ultimate purpose of business is to serve the interests of stockholders and by doing so businesses in competitive markets will generally end up providing significant benefits to society. The stakeholder view says that the ultimate purpose of business is to serve the interests of all stakeholders and thereby the interests of all stakeholders are explicitly addressed even when

Support for the Stakeholder View of Corporate Social Responsibility

Two main kinds of arguments support the stakeholder view of CSR: instrumental arguments and normative arguments.[51]

Interactive

Instrumental Arguments | Normative Arguments

Instrumental arguments claim that being responsive to all of its stakeholders is in the best interests of the corporation, even though it may not be in the best interests of shareholders. The idea here is that if a company takes the interests of all its stakeholders into account, those stakeholders will be favorably disposed to do their part to support the company and its interests. For example, treating employees decently while paying them good salaries will make employees more loyal to the company, while treating employees poorly may lead to shirking or even destructive behavior. Similarly, when a company is responsive to environmentalists or other activists, these groups are less likely to engage in activities that can damage the company's image or its reputation. Yet paying employees higher wages and investing in meeting environmentalists' demands may force a company to reduce shareholder dividends. In short, instrumental arguments for stakeholder theory claim that being responsive to all stakeholders is good for the business even though it may reduce the profits shareholders get.

competitive markets fail to secure their interests. We cannot discuss these important questions any farther. Our aim here is only to explain corporate social responsibility so that we can explain how corporate social responsibility is related to business ethics.

So how are business ethics and CSR related? Being ethical, according to most scholars, is one of the obligations companies owe to society. In this respect, business ethics is a *part* of CSR. In what has become a widely accepted description of the kinds of social responsibilities companies can have, for example, Archie Carroll writes:

> The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations . . . [52]

CSR, then, is the larger more inclusive notion, and business ethics is just one part of this larger notion. In addition to its ethical obligations, a company's CSR includes those legal obligations, economic contributions, and those "discretionary" or philanthropic contributions society expects from companies. Notice that both shareholder theory and stakeholder theory can accept this way of defining what CSR includes. For example, Friedman explicitly says that a company should live up to the ethical and legal expectations of society, that by pursuing shareholder profits it will make the greatest economic contribution to society, and that it should make whatever other discretionary contributions it needs to make so that society will enable it to operate profitably. Stakeholder theory says that companies should be responsive to all its stakeholders and that would include making the economic and discretionary contributions society expects, as well as behaving ethically and legally toward its stakeholders.

However, the relationship between business ethics and CSR is more complicated than we have so far suggested. As we have seen, the arguments underlying the various views of business's obligations to society—both the arguments that say businesses are *obligated* only to stockholders, and those that say they have *obligations* to all stakeholders—are ethical arguments. Friedman, for example, held that owners have the *right* to say how the corporation should be run because they own the corporation, and so managers have the *obligation* to do what stockholders want. The normative argument for stakeholder theory, as we saw, says that *fairness* implies that business has *obligations* to all stakeholders. All of these concepts—rights, obligations, and fairness—are ethical concepts. So ethics is not only part of a company's social responsibilities; ethics also provides the basic normative reasons for CSR. Paradoxically, then, ethics is one of business's social responsibilities, but business has these responsibilities to society because it is what ethics demands.

Quick Review 1.5

Corporate Social Responsibility Is a Business's Societal Obligation

- Friedman's shareholder theory argued that a manager's only responsibility is to legally and ethically make as much money as possible for shareholders.
- Stakeholder theory says managers should give all stakeholders a fair share of the benefits a business produces.
- Business ethics is both a part of CSR and part of the justification for CSR.

1.3: Ethical Issues in International Business

OBJECTIVE: Examine ethical issues arising from globalization and international business connections and practices

We have so far discussed some of the main issues business ethics has had to deal with during human history. The issues we have talked about are the kinds of issues that, for the most part, arise within the national borders of a single country. Next, we will turn to look at some of the business ethics issues that emerge in the international arena, including technology.

1.3.1: Technology and Business Ethics

Technology consists of all those methods, processes, and tools that humans invent to manipulate and control their environment. Since the Industrial Revolution, technology has been developing rapidly and changing our societies. Businesses in particular have been transformed by the development of new technologies. Inevitably, these changes have raised the ethical issues we now face.

This is not the first time that new technologies have had a revolutionary impact on business and society. Several thousand years ago, during the Agricultural Revolution, people developed the first farming technologies. These technologies enabled them to stop relying on foraging and on the luck of the hunt. Farming could now provide a reasonably constant and consistent supply of food. The invention of irrigation, the harnessing of water and wind power, and the development of levers, wedges, hoists, and gears eventually allowed people to produce more than they consumed. Out of this surplus grew trade, commerce, and the first businesses. With commerce came the kinds of questions that make up business ethics: What is fair in trading? What is a just price? When are weights and measures deceptive?