Business Ethics: An Introduction

The question "What is business ethics?" presents as a simple enough question, but like many things in this course, it holds within it layers of nuance and context. To answer this question it requires you to decide if

a.) business ethics is its own distinctive set of ethical principles built around the interests of business, or if

b.) business ethics is simply ethical principles and reasoning applied to business practices.

Answering this question forces you to decide: if something is unethical to do outside of a business, does it become ethical within the operations of a business because of the way in which it aligns with the needs and interests of the business. If it's wrong to steal your neighbor's lawnmower, is it also wrong to steal your competitor's client list? If it's wrong to treat your child's teacher like they *exist* for the purpose of educating *your* child, is it wrong to treat your employees like they *exist* only for *your* business operations?

There is a small and diminishing, if not gone entirely, camp of people who have tried to claim that business ethics is separate and distinct from society's expectations of ethical behavior. They've argued that what is done in the context of business is exempt from normal ethical expectations and, instead, subject to a different set of ethical principles centered around the imperative of profit. One of these individuals is Alan Carr,[1] who proposed that society already creates exceptions and contexts in which certain behaviors that would typically be seen as unethical, in fact become morally acceptable. He builds his argument entirely on the premise of poker, a card game built off the premise that each player is dealt a certain number of cards, has some opportunity to alter or add to their hand of cards, and must put together a set of cards that would rank higher than their opponents' cards. Carr argues that a central element of this game is 'bluffing' – deceiving your opponents into believing your cards are actually better than they are so your opponent will give up and not risk losing money. Carr says this bluffing is a deceitful and dishonest practice built into the structure of the game, the formal rules of poker not only allow for, but call for players to engage in this behavior. Because the game is structured in such a way that it could not be played without bluffing, this type of behavior is both morally acceptable and expected. If there were no bluffing, and all the cards each player had were open and visible, then the game of poker would mostly be left to random chance of who gets dealt the better cards. The dishonesty is required for the game to work as its designed.

Carr argues that, like poker has its own rules and the aim of each player is to win by taking from the other players, business is built around an imperative of profit in a comparable manner. Carr argues that business is a competition in which there are limited opportunities to make a profit and that making this profit is done at the expense of others, the businesses with which you are competing. After all, the customer must decide between you or a comparable product/service, only one company can win the contract up for bid, or only one company can secure the rights to build their new store at a given site location. Further, Carr argues that, like poker, people know that business operates on the imperative of profit. People understand that when a product is marketed as the *ultimate, premiere, or superior* product such claims should be taken with a grain of salt. Carr argues that because people who work in business know that all bets are off when it comes to the pursuit of profit, then in fact, all bets are off. In his argument, because your competitors engage in misleading claims, corporate espionage, or dehumanizing practices then it not only becomes ok (as it establishes the rules for the game) but it becomes a necessity. According to Carr, the 'rules' of business are to make as much profit as possible while following whatever laws the company is required to follow. Profit and legality are the only considerations to be accounted for when deciding what is and is not the *right* thing to do. Anyone holding to the *golden rule* of 'do to others what you would have them do to you' is naive and doesn't understand how business works.

This account of *ethical egoism,* e.g. considering right and wrong to be determined by what is best for the self, didn't sit well with many people. Some took issue with Carr's position that, like poker can't be played without bluffing, businesses can't be run without overruling societally established ethical norms. Alan Tomhave and Mark Vopat tackled this in their article On the Disconnect Between Business and Professional Ethics.[2] They are argue that some professions cannot be practiced without overriding the ethical norms of society, however, business is not one of them. There is no element of business operations, nor aspect of running a business, which **requires** a business professional to violate normal ethical principles.

Norman Gillespie, in particular, took issue with Carr comparing business to a game.[3] He argued that Carr's position was deeply flawed for many reasons; to summarize some of his key points:

- Business deals with people's real lives, their livelihood, their ability to care for themselves and their families. As such, the stakes are different than in a game. When a game is over people go about their lives largely unaffected, but the role of business in society is different. Business is not a form of recreation; the consequences of a business mistreating or misleading people can be quite severe and far reaching.
- Legality does not establish morality. The world, both currently and historically, is full of lawful practices that are morally reprehensible. Both historically in the USA, and currently around the world, practices such as slavery, systemic oppression of women and minorities, apartheid, and other such harmful practices are (or have been) protected by laws.
- Because something is done by others, even a majority of others, this does not make it an ethical practice. If this were the case, then the German soldiers in WWII, who found themselves in the majority in their country, could be deemed ethical in their genocide of Jewish persons. Has the argument - "Well everyone else is doing it." - ever been deemed a sufficient independent cause to justify the morality of a course of action?

Gillespie is sympathetic to Carr's arguments about the *way it is*, and understands that "anyone who abides by ordinary moral standards instead of the rules of business [may be] placed at a decided disadvantage" in meeting business' interests. However, even if a majority of corporations are engaging in corporate espionage, this does not make the practice ethical. At most, Gillespie argues it makes the practice understandable from a descriptive position. *Descriptive ethics* focuses on explaining why people make ethical (or unethical) choices, whereas *normative ethics* is concerned with what ought to be, or what people should do. Gillespie says that even if we can have sympathy for an employee who is forced between a rock and hard place it doesn't mean the practices should be permitted. If a person sweeps a product defect under the rug to keep their job, fudges the numbers to help their boss look good, or engages in a culture of misogyny to get ahead, people can generally understand and sympathize with others in these positions. However, this sympathy does not excuse the behavior or make it ethical. It may lead us to give the person some leeway or cut them some slack, but not to agree their actions qualify as desirable or ethical. It only helps to explain the reasons for the behavior (descriptive), not advocate for it to become the standard for how we should act (normative).

The practice of ethics is always embedded in a particular context with specific players, who must negotiate the right course of action through inclusion and discussion of moral principles; "there is nothing so clear about a rule which makes it obvious what to do without negotiating with other people. Following a rule is a social practice."[4] Where Carr believed those involved in the *game* of business are the ones who get to make up the rules; Gillespie understood that *how* businesses play with each other effects, not only the businesses, but all of society. Even if business could be understood or discussed as a game, it is part of the same game everyone else living in society is playing and doesn't receive a special dispensation to break the rules to which everyone else must adhere. Carr's argument would create a paradigm for any group to segment itself off from social expectations for normative ethics. The paradigm it creates would allow for policing, scientists, or politicians to write their own version of what does or does not count as ethical based of a skewed interpretation of one element of their role in society. Should police be allowed to override rights of individuals in pursuit of security? Scientists allowed to distort their data in pursuit of publications? Politicians allowed to accept bribes in pursuit of reelection? Clearly business is an integral component of how society operates and not privileged to ignore normative ethical constraints in the pursuit of its own ends.

Business ethics is a field of study both focused on descriptive and normative ethics. In our study of business ethics we seek to answer the question of the way business ought to be done (normative ethics), and to do this we must understand why people do what they do in the context of business (descriptive ethics). So in addition to ethical theory and ethical criteria, we will study the psychology of motives and the influence of social psychology on culture and climate in our organizations.

Circling back around to our earlier question, "What is business ethics?" this should now be a little clearer.

Business ethics is the application and practice of ethical principles in the context of business operations. As with all applications of ethics, the context of the environment weighs heavily on the process of ethical reasoning, but business ethics is *not* its own set of rules built around how to increase profit. Medical practitioners employ *medical ethics* while caring for patients. Lawyers employ *legal ethics* in defending or advocating for their clients. Businesspersons navigate complex stakeholder demands in their application of *business ethics* as they pursue profit. Since business ethics is *not* built on the tenets of profit and legality, we must now learn a little bit more about what it *is* built on. Moving forward we review the various topics covered by business ethics and then investigate the question: what makes something the ethical thing to do?

1. Carr, A. (1968). Is business bluffing ethical. *Harvard Business Review*, *143*, 155.
2. Tomhave, A., & Vopat, M. (2013). On the disconnect between business and professional ethics. *Teaching Ethics*, *13*(2), 93-105.
3. Gillespie, N. C. (1983). The business of ethics. In *Profits and Professions* (pp. 133-140). Humana Press.
4. Mowles, C. (2021). *Complexity: A Key Idea for Business and Society*. Routledge.

Business Ethics: Topics Overview

Since ethics is a situated practice, always occurring in a time and place between specific people around specific topics, this page provides an overview of what that context is for business ethics. As a discipline, business ethics focuses on the impact of business decisions, the relationships between participants and their stakeholders, and the role that business plays in society as a key member of a three-sector world (business/government/civil society). Not all of these topics will be covered this week but they are being offered here as introductory glossary:

- **Ethical decision-making**
  - A value-laden negotiation process where individuals in business must weigh the interests & powers of, as well as moral duties to, various stakeholders while attempting to balance harms and benefits in the course of business operations.
- **Management practices & employee relations**
  - Concerned with leadership roles and behaviors; how do (and should) the behaviors, choices, and values of management impact the workforce.
- **Ethical climates & organizational culture**
  - Review of the origin and practice of moral values in social environments, specifically those environments where the unifying element is production in the pursuit of profit.
- **Corporate Social Responsibility**
  - Analysis of the role of business within society as a key player and contributor; it is an exploration of the relationships to assess duties and obligations emergent from interdependent players in a complex system.
- **Stakeholder management principles**
  - Consideration of the relationships supporting and effected by business; this topic serves as an investigation of the importance, validity, and salience of the different parties who work together to make business happen.
- **Globalization & international markets**
  - An overview of global forces that have emerged, and are rising, in the light of hyper-connectivity and intercultural exposure brought by international business relationships.
- **Sustainability management & resource stewardship**
  - An analysis of the relationship of business operations to environmental rights, concerns, and duties considerate of an increasingly detrimental impact on vital planetary ecosystems.
- **Economic systems & marketplace relationships**
  - The study of forces inherent to marketplace relationships, specifically which forces foster healthy and sustainable economic practices and which serve to detract from it.
- **Moral agency and accountability**
  - An inquiry into the qualifiers and responsibilities inherent with possession of moral agency, specifically assessing costs and benefits to whether corporations are or are not morally accountable for their operations.

Ethics: An introduction and overview

Ethics is a field of moral philosophy that seeks to discern, systematize, and defend the right and wrong conduct of human beings[1]. In other words: "Ethics is about moral choices. It's about the values that lie behind them, the reasons people give for them, and the language they use to describe them... It explores human virtues and vices, rights, and duties... We cannot escape from moral issues, even if our own lives are untouched by painful decisions or tinges of guilt."[2]

The principle question ethics seeks to answer is "What should we do?" -- seeking always to do the right thing and avoid the wrong thing. This question of *should* presents what is called a hypothetical imperative, also known as an if-then relationship. *If* you want long hair, *then* you should not get a haircut. *If* you want to save your money, *then* you should not spend it. *If* you don't want to be hungry anymore, *then* you should get food. In each of these situations *if* you want something, *then* you should do this something else. So what is the *if* in ethics that we want; what is ethics all about? Knowing this *if* is necessary to understanding the *then* in our imperative to act ethically.

Most broadly, ethics seeks to discover what behavior will best promote human flourishing and well-being. Right action is that which contributes to human flourishing and well-being; by contrast, wrong behavior detracts from it. So *if* you want people to flourish, *then* [insert right action]. How does this paradigm unfold in practice? Let's consider child-rearing as a prime example. Across time and cultures, societies have displayed a desire to care for their children and people have tried to raise children to flourish. So, surely, after millennia of raising children to flourish humanity has discerned the ethical way to raise children. If you want your children to be happy, then you should love them. If you want your children to be healthy, then you should clean them and feed them. If you want your child to be knowledgeable, you should educate them. Of course these are simple examples where flourishing is understood as happy, healthy, and wise. But what of the discipline necessary in child-rearing? What about those who hold to an old adage of *spare the rod and spoil the child?* How much structure, discipline, or control does a child need to balance support, permissiveness, and freedom? When should children be educated on what, and to what extent should they be sheltered from certain knowledge at times? When does loving a child mean saying yes and when does it mean saying no? What 'flourishing and well-being' means is, in itself, a difficult thing to determine. People are complex, cognitive and emotional organisms, who are enmeshed in a social environment of like-beings with whom they must negotiate the meaning of things like flourishing and well-being. Because of this, they arrive at very different answers for what is and is not the right course of action to bring about such an end. For a child to flourish in the former Soviet Union was something entirely different than flourishing in colonial America, or in China's Ming dynasty, or in 21st century Quebec.

Ethics may be anchored in the pursuit of human flourishing and well-being, but the process of ethical-reasoning is embedded in a time and a place whose context informs the outcome in new and unique ways. Ethics involves "a reflective sharpening of one's own moral awareness - a conscious examination of values and choices, of how these have shaped one's life so far, and (more importantly) of how they can be used to shape the future."[2]

People through the centuries have sought to unlock the mystery of human flourishing; each of them seeking to provide *the* solution to ethical behavior. In truth, each of these theories does add an important element to our ability to reason ethically. However, rather than providing a universal or eternal solution to ethics, as they set out to do, these theories are more revealing of the values and zeitgeist of the era from which they came than they are panaceas to human behavior.

The different theories of ethics fall into a few select camps built on specific ethical criteria. An ethical criteria is a concept or principle used to support the validity of a course of action as ethical, e.g. this is the right thing to do because it aligns the criteria of happiness/wholeness/integrity/duty/justice, etc. This page has a summary of each view, but the terms are also linked to more comprehensive articles. You will be assessed on your ability to apply the criteria of these theories to ethical dilemmas in the business world and are encouraged to take advantage of all available resources to understand these arguments:

Deontology (duty-based ethics)[3] (Links to an external site.)

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  - Focus:
    - Rules and principles that are right because they have been reasoned to be universalizable in nature. This is the most black/white version of ethics in which things fall more solidly into the classification of being right or being wrong. In this view the morality of an action, not its outcome, determines whether it is ethical or not. Lying is not wrong because it does harm; lying is wrong because if violates the moral imperative to be honest.
  - Key Figure:
    - Immanuel Kant, who argued that ethics is not a hypothetical imperative, but a categorical imperative, meaning actions are categorically moral or immoral regardless of context in which they occur. In Kant's mind, this imperative binds ethical action by rational beings through three formulations:
      - "Act only according to that maxim whereby you can at the same time will that it should become a universal law."
      - "Act in such a way that you treat humanity, whether in your own person or in the person of any other, never merely as a means to an end, but always at the same time as an end."
      - "...act as if [one] were through [their] maxim always a lawmaking member in the universal kingdom of ends."

Consequentialism (outcome-based ethics)[4] (Links to an external site.)

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  - Focus:
    - On the outcome of an action and whether it creates benefit or harm. Here the outcomes of an action are weighed against each other and the ethicality of the action is determined by which side of the equation weighs more

heavily. If an action produces more benefit, for more people, than it does harm to others, then it is ethical. Lying is only wrong if it harms other people; if lying helps other people then it is right.

- Key Figure:
  - John Stuart Mill, who argued for a form of consequentialism called Utilitarianism. In this framework an action is only an ethical action to the extent it produces happiness, and happiness in its highest form. Mill held to something called the greatest happiness principle, emergent from his relationship with his teacher, and later colleague, Jeremy Bentham:
    - "The doctrine that the basis of morals is utility or the *greatest happiness principle*, holds that actions are right in proportion as they tend to promote happiness, wrong in proportion as they tend to produce the reverse of happiness. By 'happiness' is meant pleasure and the absence of pain; by 'unhappiness' is meant pain and the lack of pleasure."
    - Concerning the *higher and lower* forms of happiness: "It is better to be a human being dissatisfied than a pig satisfied; better to be Socrates dissatisfied than a fool satisfied. And if the fool, or the pig, are of a different opinion, it is because they only know their own side of the question."

Virtues (character-based ethics)[5] (Links to an external site.)

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  - Focus
    - On the character of the person taking the action. If the actions are taken by a good person, who acts wisely and with good intent, then it is an ethical action. In virtue ethics the character of a person is known by their actions, such that one who acts justly becomes just, or generously becomes generous. Habituating virtuous behavior is seen as a vanguard against unethical actions. These people serve as moral exemplars to the rest of us. Lying is wrong if a good person would not lie in this situation; lying is ethical if it was a good person would do.
  - Key Figure
    - Aristotle, who argued that acting in accordance with virtues is a trait of *good people*, believed that acting virtuously would make someone a good person. He argued for a practical wisdom called *phronesis*, which, in ethics today, would be demonstrated as a developed capacity for moral judgement. Someone with good moral judgement is able to discern what is and is not virtuous in a given situation. To understand what a virtuous action is Aristotle employed the *golden mean* as a guiding principle:
      - "Virtue is the golden mean between two vices, the one of excess and the other of deficiency" - such that courage is the virtue between being foolish and cowardly, and generosity the virtue between miserly and lavish.

Each of these methods of ethical reasoning brings a certain value to the process of discerning the right and wrong conduct of human beings. However, too stalwartly aligning with anyone of them can cause faults in the process of ethical reasoning. Later, you will read about an ethical decision-making process for business professionals to use.

Relationships between publishing companies and artists are plagued with the potential for ethical shortcomings. You are invited to review this case on Digital Downloads (Links to an external site.) from Ethics Unwrapped and reflect over the questions at the conclusion. Though it is not an assignment this week, you will benefit from participating in this exercise as such cases will be used for assignments later in the course.

In light of our content this week, ask yourself: If it is okay for a business to behave this way toward others, would it not also be okay for individuals to treat each other this way? In other words, would it be considered ethical for me (an individual) to take the work of an artist without compensating them? Or are there market forces (e.g. aggregation of economic power) that allow businesses to override normative ethical considerations?

1. Pojman, L. P. (2002). *Ethics, Discovering Right and Wrong*. Belmont, CA. Wadsworth Group.
2. Thompson, M (2003). *Teach Yourself Ethics.* Contemporary Books.
3. Deontology (duty-based ethics) https://www.bbc.co.uk/ethics/introduction/duty_1.shtml
4. Consequentialism (outcome-based ethics) https://www.bbc.co.uk/ethics/introduction/duty_1.shtml
5. Virtue (character-based ethics) https://www.bbc.co.uk/ethics/introduction/virtue.shtml

The below terms are the key concepts from your curricular content in the first week of the course. This is *generally* not new information, but is pulled from the text and lectures. It is intended only as an extra study tool to help you prepare for quizzes as well as the completion of other assignments.

- **Ethics**: a field of moral philosophy that seeks to discern, systematize, and defend the right and wrong conduct of human beings
- **Ethical criteria**: a standard relating to moral values on which a judgment or decision may be based, consequences, principles, duties, virtues, justice, etc.
- **Ethical decision-makin**g: Identify ethical components; Identify and assess stakeholders; Test ethical criteria; Take appropriate action; Evaluate impacts and redress as necessary
- **Ethical egoism**: a theory asserting that the morally right action is the one that produces the most good for the self without consideration of consequence to others.
- **Ethical reasoning**: A reasoning process in which an individual links moral convictions, values or ethical criteria to the particular situation at hand.
- **Business ethics**: The use of ethics in analyzing, evaluating, and recommending courses of actions related to business decisions and operations.
- **Consequentialism**: an ethical system that determines the level of goodness or evil from the effect or result of an act
- **Deontology**: approach to ethics that judges the morality of an action based on the action's adherence to rules or principles. Described as duty-based ethics, because rules 'bind you to your duty'.
- **Descriptive ethics**: the study of social influences and mental processes used by people for making ethical decisions
- **Hypothetical imperative**: an imperative that tells us what we should do if we have certain desires - an 'if-then' relationship between cause and outcome.
- **Normative ethics**: study of prescriptive accounts of how we ought to behave based on actions that produce the most flourishing and well-being.
- **Professional ethics**: a set of ethical guidelines that emerge from, or specifically relate to, a given vocation or professional field, e.g. medical ethics, legal ethics.
- **Utilitarianism**: the philosophy that holds to the "greatest happiness principle" where actions are right in proportion as they tend to promote happiness, wrong as they tend to produce the reverse of happiness
- **Virtue ethics**: an ethical philosophy claiming that morality's primary function is to develop virtuous character and that out of such character will flow ethical actions.

Modern Marketplaces

In all probability, commerce and marketplaces go back thousands of years; ever since one caveman looked at another and offered two sharp sticks in exchange for an animal fur. Early forms of regulating commercial transactions go back as far as Hammurabi's Code, which sought to impose parameters for market transactions and fines for economic transgressions.[1] The Grand Bazaar in Istanbul is a covered marketplace with more than 4,000 shops that has been in the same location for over 500 years. Merchants bring their goods, trade and barter with each other, sell merchandise to consumers from locals to tourists alike. This location has been a source of prosperity and thriving for half a millennium.[2] So what is occurring here that makes this location a source of human thriving? What lends to the sustainability of this place? What causes a market place to prosper or decline?

Though economic activity in some form or fashion is millennia old as an element of human social interaction, it underwent drastic change in the 17th and 18th the century with the advent of the industrial revolution and the rise of capitalism. Capitalism, as an economic framework, is pervasive throughout the cultures who practice it. Noted historian, Karl Polanyi describes it as the difference between being *a society with market*s (pre-capitalist) and a *market society* (capitalist).[3] Capitalism emerged following sixteenth and seventeenth century in Europe; a time of societies characterized by an economic, military, and legal social structure comprised of peasants, clergy, and nobility known as feudalism.[4]

A number of individuals during the 18th century viewed feudal systems and mercantilist mentality as oppressive, unjust, and generally against the interest of the common people. Among these was moral philosopher Adam Smith, who saw these practices as the *oppression of purveyance*, claiming labor extorted under violence (be it implicit or explicit) would only ever produce enough to stave off the violence.[5] Smith wanted the fruits of the labor to be "divided among… [a nation's] different inhabitants… [based upon] what workers are due", as merit for their productive labor and not at the behest of a lord or king. Throughout his work *The Wealth of Nations*, Smith's intention is to raise the quality of life and standard of living through egalitarian and equitable practices of commerce. Smith spoke of an *invisible hand*, referring to the mysterious or unintended social benefit that occurred when individuals were allowed the autonomy to look to their self-interest through finding their own place to fit in with the needs of society. However, this concept has largely and often been misinterpreted from Smith's work as an imperative to prioritize one's self-interest at the exclusion of the interest of others; that looking *only* to one's own interest is what is best for society. It is often mischaracterized as elevating self-interest to the level of valorizing greed, which Smith abhorred. Instead, he spoke of the benefit created by everyday people pursuing their own ends through business, while meeting the needs of society:

"It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest... He intends only his own gain, and he is, in this, as in many other cases, led by an invisible hand to promote an end which was not part of his intention."

While it is most often the motive of self-interest that becomes elevated when this concept is referenced, the outcome of the *unintended end* is of equal importance. In a healthy marketplace, society can thrive because people's pursuit of their self-interest serves the common good. However, in an unhealthy marketplace society suffers and falters when self-interest is pursued at the cost of the well-being of the system. Smith staunchly held the "mean rapacity, the monopolizing spirit, of merchants and manufacturers, who neither are, nor ought to be, the rulers of mankind" was a plague on humanity as great as any tyrannical government or dictator. Smith's argument is consequentialist in nature, such that when the self-interest of individuals coalesces to make society work it should be seen as good, however, when it becomes a detriment to society it should be rebuffed.

Noxious Markets

So, what occurs to make a marketplace healthy or unhealthy, beneficial or detrimental, productive or destructive? Stanford professor Debra Satz has identified four elements that relate to *noxious markets*: two of which are determined by the consequences of the marketplace and two of which refer to the contributory sources of the market place.[6] These marketplaces produce extremely harmful outcomes and are characterized by stark forms of inequity.

1. *Extremely harmful outcomes for individuals:*
    - "the operation of some markets leads to outcomes that are deleterious, either for the participants themselves or for third parties... [examples include] market exchanges that lead to the depletion of the natural resource base of a country or the fueling of a genocidal civil war... or stock market transactions that wipe out a person's resources... a grain market whose operation leaves some people starving because they cannot afford the price at which grain is set through supply and demand."
2. *Extremely harmful outcomes for society:*
    - "...the operation of these markets can undermine the social framework needed for people to interact as equals, as individuals with equal standing... [a noxious market is one that erodes the] preconditions necessary for individuals to make claims on one another an interact without having to beg or to push others around. [Healthy] markets help enable this ideal, as the basis of market claims is reciprocal self-interest of the parties... this is a problem with child labor markets and bonded labor... or consider that particular markets may condition people to be docile or servile, shape them into passive accepters of a status quo... [noxious markets] shape us in ways that are in tension with a society of equals."
3. *Characterized by very weak or highly asymmetric knowledge and agency:*
    - "...[assumptions are made] that agents are fully aware of the consequences of their actions and have complete information about the goods exchanged. But it is widely noted by economists and others, in most circumstances these assumptions do not hold. Agency failures can occur because the market has serious indirect effects on people who are not involved in the market transactions... All real market involve imperfect information. But in some cases this imperfect information is apt to produce extremely harmful outcomes... Although the

majority of troubling markets characterized by weak agency involve extremely harmful outcomes, it is possible to be concerned by such markets even in the absence of harms... [such as] markets that target young children; markets involving the production, purchase, and dissemination of information that fail to present relevant alternative points of view about a pressing political issue; and markets whose products are based on deception, even when there is no serious harm."

4. *Reflect the underlying extreme vulnerabilities of one of the transacting parties.*
    - "In such circumstances the weaker party is at risk of being exploited. For example when a desperately poor person agrees to part with an asset at a fire sale price, even if the exchange improves his well being we are rightly concerned with the fact that his circumstances made him willing to accept an offer for his asset that no one with a decent alternative would ever accept... Some markets not only *reflect* the different and unequal underlying positions of market agents but may also *exacerbate* them by the way they operate. For example in Bangladesh a recent famine arose when the price of the main food, rice, rose very rapidly and become too expensive for the poor to purchase. By contrast, rich households were insulated from the risks of rising prices because they generally receive rice from their tenants as payment for the use of land so that they have rice for their own needs and a surplus to sell."

Like Smith, Satz sees the marketplace as an equalizing force in society where people can meet each other with mutual self-interest and share reciprocally in the benefit of commerce. When it works, society prospers, when it falls short, the prosperity becomes short-lived and one-sided. Satz did not advocate that everything in society should be equal, that all people should have equal wealth, equal knowledge, and equal access. Rather, she explained how *inequity of opportunity*, and the stark disparities of power associated with such inequity, creates a system that disproportionately advantages one side over another to the ultimate detriment of all. When the marketplace not only allows for exploitation, but facilitates it as an element of its operation, the marketplace is both noxious and unsustainable. A healthy economy depends up on the health and prosperity of its members and a marketplace that produces extremely harmful outcomes, or preys upon the weakness of people, undermines that health. Noxious markets are like a disease, like a virus that is able to thrive for a period of time as it feeds on the host, but the imbalance created is so vast and so harmful that it kills the host and the virus in that body dies off.

One of the struggles for developing healthy marketplaces is the complexity and systemic nature of individual market interactions. Where an exchange between two parties seems innocent and banal, the ways in which it contributes to the character and makeup of the larger system are often unknown or unrealized by the participants. In the daily lives of average market participants, it is difficult for any one individual to see the way in which their ordinary, recurrent actions contribute to the noxious elements of the market; their proximity to a common and normalized event facilitates a myopia concerning cause and effect. As market relationships progress, externalities often emerge that were difficult to anticipate or obviate. When this happens the noxious elements begin to permeate the system and often gain momentum and fecundity.

Satz's solution to noxious marketplaces is regulation or prohibition. Where some industries contain noxious elements, say perhaps the medical field where asymmetric knowledge and vulnerability are a part of the relationship between doctor and patient, these fields can be regulated such that these elements are diminished. Laws governing access to healthcare, rights of the patients to information and confidentiality, and an increase in the transparency of medical costs have all helped to level the playing field for people seeking medical care. However, some industries simply cannot operate, even under heavy regulation, without becoming noxious. Many illicit drugs, such as heroin, methamphetamines, or cocaine, create such a dependency in the user that it undermines their agency, fosters and exposes their vulnerability, and leads to extreme individual and societal harms. These types of markets, which also include things like child or slave labor, should be outright banned from societies. Noxious elements are compartmentalized and regulated so that people may more freely engage in the marketplace with comparable agency and personal autonomy.

1. King, L.W. (2008), *The Code of Hammurabi* Retrieved from the Avalon Project on 4/30/20 https://avalon.law.yale.edu/ancient/hamframe.asp
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Freedom in the Market Place

Freedom is universally understood as a desirable end, especially when contrasted with its antithesis such as oppression, imprisonment, or immurement. However, freedom does not mean the same thing to all people. Philosophy offers us two different understandings of freedom known as *positive liberty* (freedom to) and *negative liberty* (freedom from). When discussing freedom in the context of life in the United States, people are most regularly referencing negative liberty - this means freedom from oppression and confinement. The use of the term *negative* refers to the absence of impediment. In other words, there is *nothing* working against a person to prevent them from taking a course of action. If you wanted to rise up out of your chair and walk across the room you could do that because you have freedom that comes from not being tied to your chair. However, positive liberty is the freedom to do things and comes from a different source. An individual is free to do things when they are empowered or capable of doing said things. An individual who is not tied to a chair, but who does not have the use of their legs because of a wartime injury, is not free to walk across the room. Positive liberty also considers situational circumstances. Perhaps you are in a room with someone who is threatening to shoot you with a gun if you get out of the chair. In this case, even if you have the use of your legs, you do not have *positive liberty* because you cannot exercise your ability to walk across the room. In this instance, rising from one's chair and walking across the room requires both positive and negative liberty. However, sometimes these two forces work as counterbalances to each other, and when one increases the other decreases.

Another way to think about this mask mandates during the COVID-19 pandemic. In the absence of a mask mandate in your area, you are free from restrictions and may walk through public with your face uncovered: *negative liberty*. However, in areas with mask mandates people are free to move about society with less concern about contracting a deadly disease because everyone is wearing masks: *positive liberty*. Whether one is *free from* mask mandates or *free to* move about with less concern over a deadly disease, these are simply different forms of freedom. Consider how mask mandates increased positive liberty -- prior to the availability of such measures, businesses were often forced to close their doors completely. However, a small reduction in negative liberty (being forced to wear a mask) increased the positive liberty (the opportunity to open your business). The same paradigm applies for topics such as gun control, speed limits, dress codes, and other social measures; a balance of negative and positive liberty allows for many of the social functions people are accustomed to experiencing.

There are many forces at work in market environments that work to promote one type of freedom, while restricting another, or vice versa. While it is not universally true that an increase in one type of freedom causes a decline in the other, the relationship does most often work this way. Consider if there were no restrictions on *negative liberty*, life might very much be a pandemonium, a chaotic affair. It is what philosopher Thomas Hobbes called "the state of nature" where it is war of all against all for a constant battle to procure natural resources, personal security, and social acclaim. Hobbes argued that this state of nature is the reason we allow for reductions of our *negative liberty* in society.

"To lay down a man's right to anything is to divest himself of the liberty of hindering another of the benefit of his own right to the same. For he that renounceth or passeth away his right giveth

not to any other a right which he had not before, because there is nothing to which every man had not right by nature, but only standeth out of his way that he may enjoy his own original right without hindrance from him, not without hindrance from another. So that the effect which redoundeth to one man by another man's defect of right is but so much diminution of impediments to the use of his own right original."

To translate that from the Olde English, what Hobbes is saying is that all persons, by nature of their being and abilities, have equal right to whatever they can lay their hands on. Even if two men both want the same valuable object, and one of them is stronger and more vicious than the other, it does not preclude the weaker of the two from going and recruiting three colleagues to come and take it. Hobbes says this is how things would work in the state of nature. But rather than constantly being afraid that you're going to come into my house and take my things, we contract with each other to lay down this right to take what we can when we want it. People in society allows others the freedoms they themselves want, and restrict the in others the freedoms they themselves are comfortable having restricted. To the degree that this paradigm of contractual restriction is mutual and equitable, then society thrives and prospers free from what Hobbes calls *diffidence of others* (e.g., anxiety and paranoia that everyone is out to get you all the time). In Hobbes' mind, the role of government in this relationship is to ensure that the agreed upon contract, e.g. socially preferred balance of freedoms & restrictions, is upheld and enforced fairly. When it is not, they intervene to hold parties appropriately accountable.

An ethical marketplace is one that respects the interests of its participants to live with the agreed upon balance of negative and positive liberty. When an imbalance occurs because of coercion, manipulation, or deceit by one party, the ethics of the marketplace become skewed and can lead to the noxious markets previously discussed.

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Motivation & Morality

Business and business professionals have long been accused of being solely motivated by greed and avarice. This was generally the position of Milton Friedman who wrote of business executives that their only "responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible."[1] You read on the last page that as far back as the 1700s Adam Smith was promoting self-interest, while in the same text decrying the evils of greedy merchants who sought only to enrich themselves at others expense. But is the pursuit of profit really as morally bankrupt as it is often painted to be? Or is it possible to seek economic wealth and prosperity without sacrificing moral standing? There are many different facets informing how to answer the question of the morality of motivations.

Ethics deals with the application of moral values in specific social contexts, and these values are what give rise to our ultimate conclusion about what is and is not the ethical course of action. Expatriate and former NSA Analyst, Edward Snowden, presents an excellent case study to analyze this issue. How an individual (or group of individuals) regards the morality of a whistle-blower is more closely correlated to their own hierarchical organizing of moral values, than it is to an objective truth in the situation.[2] In 2013, *The Washington Post* and *The Guardian* released information relating to a secret surveillance program of millions of private Internet accounts (such as Yahoo & Google) by the United States Government who was clandestinely using the Internet and cell phone providers to spy on citizens. This information came from an NSA analyst, named Edward Snowden, who was deeply involved in the programs. He had voiced concerns about the morality and legality of the program to his superiors. When Snowden was told to keep quiet and he keep his head down, he grew disillusioned. He ultimately decided to expose the program by releasing large amounts of intelligence files related to it. A person's perception of what motivated Edward Snowden to act says a lot about the ethical value they assign to his actions. Whether you believe Edward Snowden is an anarchist, perhaps seeking fame and glory, or a patriot seeking to save his country from corruption, informs the moral value you assign to his motives. This is often the case when normal people find themselves on opposite sides of an issue.[3] Whether you think Snowden is a traitor who betrayed his country and placed intelligence operatives at risk, or a hero who blew the lid off government corruption and abuse, likely depends on if you hold more strongly to the moral value of loyalty or to fairness. Neither of these values is inherently better than another, but the way in which we interpret and negotiate their meaning in the context of social relationships unconsciously shapes our bias toward or against a position on the issue - this is an idea known as moral foundations theory.[4] Are business executives greedy, wealth-mongering, corrupt elites who would just as soon pick your pocket as help you up? Or are they paragons of industry and innovation, paving the way into the future with free enterprise and technological progress? To try and insert some measure of objectivity it is useful to employ a philosophical process called *pragmatism*, in which common ground is sought via an agreed understanding of terms.

The concepts of self-interest and selfishness are often used interchangeably, as both concepts deal with the acquisition of the self's desires. However, philosopher Antony Flew took issue with their conflation, especially when they came to be applied to business executives. Flew conducted an analysis of the criticisms of the *profit motive* in an effort to describe and assess its moral worth.[5] Flew claimed that those who seek profit are merely seeking to benefit, to gain prosperity, security, and well-being. This pursuit of profit is "by parity of reasoning" comparable to any person seeking to improve their status and establish security in it. He claimed that no one had moral grounds to "assume that the desire to make a (private) profit is always and necessarily selfish and discreditable". Flew draws a distinction between selfishness and self-interest through several analogies. He describes common, diurnal activities that operate on the motive of self-interest but are widely acknowledge as morally acceptable.

"For example: when my daughters eagerly eat their dinners they are, I suppose, pursuing their own interests. But it would be monstrous to denounce them as selfish hussies, simply on that account. The time for denunciation could come only after one of them had, for instance, eaten someone else's dinner too; or refused to make some sacrifice which she ought to have made. Again, even when my success can be won only at the price of someone else's failure it is not always and necessarily selfish for me to pursue my own interests. The rival candidates competing for some coveted job are not selfish just because they do not all withdraw in order to clear the way for others."

What Flew is arguing here is that a self-interested pursuit of profit, of wealth even, is not inherently a selfish act. Selfishness comes into play only when an individual has pursued their own interest unfairly or unjustly at the expense of another. In the above scenario, if one of Flew's daughters had taken food away from an impoverished or hungry child, or even failed to share her abundant meal with a starving person, even when eating it all would only make her sick, this would qualify as selfish behavior. If while competing for a job at a company, one of the candidates manufactures untrue rumors about other candidates, steals secrets for blackmail, pays bribes, or in some way seeks an unfair advantage over an equally qualified candidate, then this behavior can be called selfish. Flew's point is that pursuit of self-interest and acts of selfishness must be practically understood as separate behaviors because they carry distinct moral (or immoral) values. All persons act with self-interest, but need not act selfishly. For businesses and business executives to purse profit is not an unethical pursuit, but when it occurs unjustly at the expense of others, it can become one. This could be seen as a manager who, rather than sharing surplus funds with the team responsible for generating the surplus, decides to pocket the sum in total - claiming it as a bonus for his or her exemplary leadership. While certainly the manager had played a role, it is selfish to assume that others are not also deserving of some reward for their work. This is one of the primary criticisms of the growing wage gap in the US economy, that while executives provide leadership and skills that surpass what others can contribute, the allocation of profits disproportionately devalues the work of people on the ground who are responsible for making the business function. It is not as much a call for equal pay throughout an organization, but rather a concern that selfishness has begun to supplant the morally acceptable pursuit of self-interest.

In the last reading on healthy marketplaces you were introduced to the idea that acting in the best interest of others will ultimately serve individual self-interest, this is a philosophy known as *enlightened self-interest* . Earlier in the class you encountered the counterpart to enlightened self-interest, *ethical egoism*, which claims people should do what they think is best for them without concern for the consequence it has on others. It is useful to view this paradigm through the Aristotelian lens of the *golden mean*, where selfishness (ethical egoism) is the vice and enlightened self-interest is the virtue. As an example, consider the earlier scenario with the manager who decided to pocket the surplus profit as bonus instead of sharing it with the team who helped to generate it. This practice, carried over time and iterations, decreases the motivation of the team to continue generating profit. It may even cause the most productive team members to seek work elsewhere. This of course leads to a decline in surplus profit for the manager to continue to claim as bonuses. Whereas, if the manager had shared the profit with the team, giving bonus money as a reward for helping generate profit, then the team is more motivated by a self-interested pursuit of profit to continue the hard work that led to this reward. Ultimately, if the manager acts with consideration of what is good for the group, then the manager has created a system where he or she will also continue to benefit. The claim of enlightened self-interest is that if individuals will make small sacrifices now, for the good of whole, then in the end the reward to the individual will be greater in totality. Individuals may still act of out of self-interest, but with self-control and self-awareness cognizant of the longevity of the situation.

Motives are a complex element of human social psychology. They move humans to act with varying degrees of intensity, direction, and persistence. Though much is known about what, how, and why people are motivated, the misconceptions and misinterpretations surrounding motives are still profound. As Dostoevsky puts it, “We must never forget that human motives are generally far more complicated than we are apt to suppose, and that we can very rarely accurately describe the motives of another.”[6] What is known about motives is that people rarely, if ever, act from a single motive. The pursuit of profit, e.g. wealth, can just as easily be about physical security as it can be about social acclaim. The pursuit of a promotion can be about chasing a bigger paycheck, or dissatisfaction with one's current level of responsibility. Motives themselves rarely carry enough within them to be labeled ethical or unethical, but rather the way in which these motives prompt people to act is what informs their ethicality. When it comes to the profit motive, and other such self-interest concerns, it is useful to bring the lessons of consequentialism into the analysis. If the consequence of acting on the motive is that one has overridden the ethical norms created by society for such a situation (e.g. don't lie, cheat, steal, etc.) then such a motive is ethically problematic. However, in most situations, motives can be managed and moderated to prevent unethical behavior. As such, Flew is correct that it is untenable to claim that something like the pursuit of profit is universally a greedy and selfish pursuit. Perhaps, at best, it is one people should engage in with greater conscious awareness, and with close attention to potential pitfalls, to avoid transgression from virtue into vice.

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Ethical Case Analysis

Facebook was founded in 2004 at Harvard University by Mark Zuckerberg and fellow classmates. It provides a social media platform for users to post information, pictures, thoughts and opinions, and variety of user-generated content. Since its inception, Facebook has operated free of charge to its users. Instead, the company generates profit through the sale of advertising space on its platform. Comparable to Google and other Internet platforms, Facebook boasts an ability to connect its users to advertisements that are highly relevant to their desires. It does this through analysis of user generated content. By 2020, Facebook could claim 2.8 billion monthly active users (roughly 1/3 of the human population) and ranked fourth in global internet usage. During the 2010s it was the most downloaded mobile app.

When people register for a Facebook account they agree to the terms and conditions of use, which includes the mining of their data for the purposes of providing targeted advertisements. Facebook's business model does not include the release of this data to third-party advertisers, though there have been noted exceptions to this policy that have caused the company big problems. In general, an advertising agency brings a product to Facebook and the social media company shows those ads to people who are most likely to click on them and follow through with purchasing the product. Because of its success with this model, Facebook can charge a premium for its advertising space that has allowed it to generate billions of dollars in revenue on an ongoing basis. At times, when, how, and who is targeted by these practices has caused concern. The Markkula Center for Applied Ethics shares one such instance:

> "In 2017, Facebook's "People Insights" blog published a post titled "What Mends a Broken Heart on Facebook." In it, the company's researchers detailed insights that they had gathered by examining "how the break-up moment influenced the online behaviors of people across France, the Netherlands, Poland, the United Arab Emirates and the United Kingdom who indicated on Facebook that they recently went through a break up."
>
> One of their findings was that "there could be a gap between the break up itself and the Facebook post announcing it. During the two weeks before and the two weeks after their break-up announcement," they explained, users "accepted more than one invitation to an event 40% more than [during] the 60 days before and 60 days after their announcement."
>
> The researchers also noted that "'Healing,' 'detox,' 'drowning sorrows,' 'binge watching' and 'suffering' are just some of the words and phrases that are more pronounced in men's posts before they mark themselves 'Single.' The same types of words and phrases are more pronounced in women's posts on the actual day of their announcement."

As to what helps people get over a breakup, Facebook researchers wrote that "[g]aining new experiences… seems to be more therapeutic than buying things." Under the subhead "What it means for marketers," the post then asks, "How can brands be a part of the journey to help mend people's broken hearts?" Suggested answers include "Empathize with them" and "Offer them new experiences." The post concludes by encouraging potential Facebook advertising clients:

"Tracking signals of intent to travel, experience new things or take up a new hobby can help you reach this group with a relevant ad at the right time."

While Facebook mines all users posts for the purpose of providing targeted advertising experiences; is it ethical for Facebook to mine its users' posts for signals that those users are about to go through a break up? Is it ethical for the company to then help its clients target their ads based on this research? Try and identify what exactly is different in this scenario from Facebook's everyday practice of targeted advertisements. Think about which ethical criteria hold the greatest weight in determining whether this practice should or should not persist. Consider to what degree the mantra of *caveat emptor* (buyer beware) applies to the terms and conditions Facebook users agree to when they sign up for the service - how can or can't this be considered *informed consent?* See if you can identify any mitigating factors that exist in the broken hearts scenario that might diminish the validity of that philosophy.

- Select one (or more) of the ethical theories from our first week and use it defend a position that Facebook is/is not acting ethically in this case.
- Next, analyze the actions of Facebook *in this case* to determine if they are contributing to a noxious market relationship. Then, analyze the business model of Facebook to determine if it is contributing to a noxious market relationship.

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Week Two - Concepts & Terms

The below terms are the key concepts from your curricular content in the second week of the course. This is not new information; it is pulled from the text and lectures. It is intended only as an extra study tool to help you prepare for quizzes as well as the completion of other assignments.

- **Central-State-Control** - a system in which economic power is concentrated in the hands of government officials and political authorities.
- **Enlightened Self-interest** - a philosophy in ethics that states that persons who act to further the interests of others ultimately serve their own self-interest.
- **Invisible Hand** - a phrase coined by Adam Smith to describe the process that can turn self-directed gain into social and economic benefits for all.
- **Marketplace** - any location or system in which goods and services are exchanged as a matter of economic operations.
- **Moral Foundations Theory** - a theory proposing there are universal moral domains in which specific emotions guide moral judgments and people will order these domains differently based on lived and cultural experiences.
- **Negative Liberty** - freedom from constraints or the interference of others
- **Neoliberalism** - an economic and political worldview that believes the health of an economy rises as government involvement declines; advocating the less government intervention in marketplaces the better the outcome for all.
- **Noxious Markets** - marketplaces characterized by extremely harmful outcomes (to individuals or societies) and/or the weak agency and disparity of vulnerability of the participants.
- **Positive Liberty** - The freedom and ability to pursue one's goals
- **Pragmatism** - a philosophy which focuses fostering shared understandings, in pursuit of practical outcomes, through analysis of processes and their participants.
- **Profit Motive** - an incentive that drives individuals and business owners to acquire profit (surplus wealth) for personal use.
- **Selfishness** - a concern for one's own welfare or advantage at the expense of, or in disregard of others, characterized as excessive interest in oneself.
- **State of Nature** - the condition of people living in a situation without government, rules, or laws where war of all against all prevails
- **Weak agency** - occurs when one participant in a process does not have the practical means to meet their own self-interest due to a lack of social tools and resources, e.g. asymmetry of knowledge, interpersonal or political power, access to infrastructure, etc.

Corporate Social Responsibility (CSR)

Corporate Social Responsibility, commonly referred to as CSR, is a business model in which companies use their power, influence, assets, and abilities to contribute to addressing needs within society beyond the provision of the products and services created for profit. It is the belief that businesses bear some measure of accountability to the societies in which they operate. As a theory it is backed up by all of the ethical frameworks introduced in this course. It addresses the needs of ethical duties, creates the greatest good for the greatest number, and fosters ethical character in its practitioners. It is supported by both normative reasoning and empirical research to meet these ends as you will read in this module.

To start with, consider general systems theory, a widely celebrated perspective used for examining organisms in natural ecosystems. According to general systems theory, all organisms exist and operate in relation to other organisms, and are affected and formed by these relationships. So while an organism, say a tree, may be an individual entity with clear boundaries and identifying characteristics, the manner in which it thrives and persists cannot be understood outside of its relationship to other organisms in its ecosystem. A tree cannot thrive in isolation, it requires sun, water, soil, and wildlife. In a human society this paradigm holds true as well. An individual's success is, in part, a result of hard work over time. However, it could never be substantiated to have occurred outside of relationships to others like family, teachers, friends, and mentors, as well as others in the individual's network of relationships. Comparably, businesses rely on a system of resources such as infrastructure, consumers, suppliers, natural resources, financiers, and other countless resources. These relationships and resources create the environment in which the hard work of people done in a business has the opportunity to thrive.

Corporate social responsibility is the argument that these relationships create a duty to give back. The word *responsibility* comes from the Latin *respondere* meaning "to promise in return, to pledge back to" as a response. As businesses rely upon and extract resources from the environment (social and physical), these actions create a duty to reciprocate and give back to that environment so that the environment remains healthy and strong. This is how natural ecosystems operate and continue to work sustainably, and it is how a healthy society works as well. CSR works to balance the power in the system toward the end of persistence and longevity. It operates on the mantra of the *iron law of responsibility*, which asserts that those who have power and abuse it will, in the long run, lose the license to continue exercising that power. Consider how companies who abuse the public trust, lose market share, or companies that work against the common good become more heavily regulated. Society has a vested interest in, and historical practice of, disposing of bad actors in the marketplace.

When businesses act with CSR in mind they effectively help to discourage government regulation, promote long-term profitability, increase reputation and market share, and improve social health and well-being. Companies that incorporate CSR directly into their mission also experience higher levels of employee productivity and lower turnover, as the case with KPMG a major international accounting firm. CSR takes many forms and is only limited by the imagination of the people engaging in the work, it commonly refers to businesses efforts to address issues such: environmental issues (decline in biodiversity, pollution, climate change, etc.), social inequality such as wage disparity or sex-typification, child development or hunger issues, diversity and inclusion, volunteerism, and a variety of issues related to global injustice such as poverty wages and ethical sources of supply chain goods. CSR challenges businesses to understand their own interdependence with these issues, that though they operate independently and with autonomy, they do not operate in isolation.

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THE ECONOMIC MODEL OF CORPORATE SOCIAL RESPONSIBILITY

Tradition suggests that a business exists solely to respond to market demand, produce a quality product based on the demand, and generate profits. This traditional view has been the basis for the **economic model** of corporate social responsibility. Accordingly, this school of thought argues that society will ultimately benefit on the success of a business organization. It further holds that maximum social benefit will transpire only if businesses are free to produce and market products that the society needs (or perceives it needs).

Nobel Prize-winning economist Milton Friedman introduced the Friedman doctrine of social responsibility in his 1962 book "Capitalism and Freedom" and in a 1970 seminal article published in The New York Times. He argued that the sole social responsibility of a corporation is to uphold the interest of the shareholders by maximizing profitability while also remaining obedient to the laws of the jurisdictions in which it operates.

THE SOCIOECONOMIC MODEL OF CORPORATE SOCIAL RESPONSIBILITY

Modern proponents of corporate social responsibility believe that businesses have a responsibility not only to shareholders but also to stakeholders—including customers, employees, suppliers, and the public. That is, a business has a responsibility to generate profit, *while also* providing value to others beyond the owners of the company, through managing a competing field of interests. This view has been the basis for the socioeconomic model of corporate social responsibility. As described, this school of thought recognizes the fact that the operation of a business has an impact on the society. It also argues that business organizations should always consider this impact when making business decisions.

American philosopher and business management professor R. Edward Freeman introduced an alternative to the Friedman doctrine about maximizing profit to promote the interest of shareholders. He specifically introduced the **stakeholder theory** of corporate social responsibility in his 1984 book "Strategic Management: A Stakeholder Approach" to provide a groundwork for addressing the moral obligations of a business organization. The theory holds that apart from shareholders, a business has a responsibility to promote the interests of varied parties: From employees, suppliers, and customers, to the government, community, and trade organization.

ARGUMENTS FOR THE MORE EXPANSIVE UNDERSTANDING OF CSR

The economic model of a firm's CSR is based off the simple argument that "the business of business is business" and it shouldn't be overreaching its mandate. Friedman's argument, his bottom line, is that expecting a business to do more than generate profits for its owners creates a less free society. However, referring back to last week's introduction on the diverse types of freedom, it's clear Friedman is building his argument upon a decrease in negative liberty for business owners and business executives. Friedman argues that paying someone a higher wage than they have the power to demand through market forces (i.e., a market wage) amounts to an unjust taxation of shareholders, e.g. reducing their freedom to collect profit. Yet it should be clear that paying an employee a *living wage* instead of *market wage* would increase the positive and negative liberty of the person receiving that wage. Friedman argues that if market wages are too low it is up to the job of government to regulate them so that people can work and meet their basic needs. In response to this Friedman's critics point out the degree to which business in the past have interfered with governments efforts to do this, some spending almost as much on lobbying against minimum wage increases as the wage increase would cost them.

The socioeconomic model, built on Freeman's stakeholder theory principle seeks to incorporate Friedman's responsibility to shareholders while acknowledging the complexity of market relationships. The socioeconomic model, specifically stakeholder theory, has built a tripartite set of arguments to explain and defend why it represents the better model of corporate social responsibility.

Descriptive Argument

The descriptive argument claims that stakeholder theory of the firm more accurately *describes* the way a business operates. When you look at how businesses treat customers, suppliers, and business partners, they treat them like they are stakeholders in the business. Interdependence is built into the business model and stakeholder theory offers a description of how that interdependence works. Businesses do most often tend to the interests of a complex network of stakeholders as a part of their operations. It is actually the standard practice in society today for major companies to release publicly how they do this, and developing stakeholder analysis tools is a must for business operations. See this report here for: What is a Stakeholder Analysis (Links to an external site.).

Instrumental Argument

The instrumental argument claims that stakeholder theory of the firm is actually in the best interest of the firm achieving profit. If you hold that a business exists to make money, as much of it as possible, for as long as possible, then it needs stakeholders to do that. So stakeholder theory presents a position that all stakeholders are instrumental in the long-term profit viability of the business. Per the earlier conversation on wages, businesses who pay employees above market wages (and additionally treat them well) tend to recruit, employ, and retain labor at a higher rate as well as see higher levels of productivity. This comes back around to the enlightened-self interest philosophy introduced last week. Other research around this argument supports companies understand such behavior to be in their own best interest. See this story for more: Does it Pay for Companies to Do Good. (Links to an external site.)

Normative Argument

The normative argument claims that stakeholder theory is the way business should operate. In other words, it should be the norm for businesses to care for stakeholders as it is the morally and ethically way to be. Like most ethical positions, it is based off of what is in the long-term best interests of society. In example, people shouldn't lie (very often anyway) because then we can't trust anyone and society would cease to function. Businesses *should* care for stakeholders because it creates the best possible world in which we all want to live.

CSR AND MORAL OBLIGATION

Milton Friedman believed that corporation's duties did not extend to benefiting society beyond the provision of whatever product or service they were selling. He stated of employees in a business their "responsibility is to conduct the business in accordance with [shareholder's] desires, which generally will be to make as much money as possible while conforming to their basic rules of the society, both those embodied in law and those embodied in ethical custom." Of course this begs the question of what is meant by ethical custom. Philosophers broadly hold to three different levels of moral obligation when it comes to discussing a person's responsibility to act ethically. These are:

- **Do No Harm:** an individual or entity should not, knowingly or when possible, take any actions that harm others.
- **Prevent Harm:** when possible an individual or entity should act to prevent harm from occurring within their sphere of influence.
- **Do Good:** an individual or entity should seek opportunities to utilize resources, abilities, and knowledge to increase the good in the world.

The first of these should be understood as a passive requirement, in that it does not require action in order to be ethical, only the absence of harmful action. The second and third of these increase the level of moral obligation to include some positive action on the part of the individual or entity. In other words, imagine you are standing on a busy street corner waiting to cross. You witness someone approaching while texting on their phone. You notice the person is distracted and seems unaware they are about to walk into traffic; many people would say that doing *nothing* is an ethically insufficient course of action. Rather, it would be expected that you should at least act to prevent the imminent harm from occurring by crying out to the individual, or take some action to prevent the pedestrian from walking into traffic. Still others might take further steps to address the situation, perhaps write to the city and request some new devices or technologies be installed to alert distracted pedestrians, or perhaps pull the person aside and attempt to educate them about the dangers of 'distracted walking' by busy intersections. It appears from a review Friedman's work that he believes businesses simply need to Do No Harm while conducting their business operations in pursuit of profit. While that is arguably an admirable goal, and at least a bottom moral line, it appears this standard fails to meet with modern social expectations. The vast majority of people in the workforce today expect businesses to get involved in addressing social issues as part of the modern ethical custom; as many as 4 out of 5 persons surveyed who were born after 1977 believe businesses need to use their skills and resources to address these types of issues.

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Major Corporations move toward Stakeholder CSR

It could be that times have shifted and values for social responsibility have emerged, or it could be that it's just now more instrumental for business to operate in this way. Whatever the cause, the overwhelming majority the nation's largest companies have come together to claim "Corporate America is responsible for providing economic benefits to all, not just its investors." To see more about why 21st century corporate America has left behind the Economic Model of CSR for the Socioeconomic Model read this article: Top U.S. CEOs say companies should put social responsibility above profit discussing the actions of the Business Roundtable.

The Business Roundtable is a nonprofit lobbyist group whose membership is made up of the top CEOs in the country. In 2019 the group signed a letter redefining the purpose of a corporation to include the imperative of participating in stakeholder capitalism, putting the interests of employees, customers, suppliers and communities on par with shareholders. Membership includes CEOs from companies such as WalMart, Apple, Amazon, Cisco, GM, and other comparable large and influential corporations. There were nearly 200 CEOs who signed the letter in 2019 marking the move toward stakeholder capitalism. Since then there have been many critics who claim the letter was just a publicity stunt to assuage public concern or paint over bad practices by the businesses themselves. While such a large body of companies will surely represent a mixed bag, the one thing that can be ascertained by this move is that society expects businesses to behave with consideration to the complex interests of a variety of stakeholders.

One manner in which businesses can be seen to irrefutably be working toward some social good is in the boycott of Russia following its invasion of Ukraine during the early months of 2022. Hundreds of businesses decreased or ceased business with or in Russia following its unprovoked military incursion into its neighboring sovereign nation of Ukraine. Review this post on The Business Ethics Blog: Corporate Vigilantism vs. Russia? to better understand intersections of 21st century CSR. As the blogs author, Dr. Chris MacDonald, points out, this particular form of corporate action is a "morally *interesting* category of behavior" that is not potentially without some concerns; some of which you will explore in week five's discussion of moral agency.

1. Top U.S. CEOs say companies should put social responsibility above profit Reuters, https://www.reuters.com/article/us-jp-morgan-business-roundtable-idUSKCN1V91EK
2. Stakeholder Theory, Wikipedia, https://en.wikipedia.org/wiki/Stakeholder_theory
3. Corporate Vigilantism vs. Russia? Links to an external site. The Business Ethics Blog, https://businessethicsblog.com/2022/03/14/corporate-vigilantism-vs-russia/

Stakeholders Management Principles

Stakeholders

A stakeholder is any person, organization, or group that is affected by the actions of the business. This be can virtually anyone up to and including society as a whole. Consider how the entire population of human beings is affected by the actions of the oil and gas companies. Different relationships between businesses and stakeholders require different considerations but anyone can be a stakeholder in some form or fashion. The nature of the stakeholder's relationship to the company is what determines their type, informs their power, and is used to assess their salience.

Stakeholder Types

Stakeholders are classified in types a number of different ways. One of the easiest way to understand stakeholders is by looking at whether they are internal or external to the organization. Internal stakeholders are the smaller group of people, specifically employees and managers who are considered to be within the organization - they are *inside* the firm. As such, the nature of their relationship to the business deals with how it is run, the facilities, and policies of the business. They typically have an interest in the business succeeding to the extent that it means their situation within the business will improve or continue to meet their needs. External stakeholders, the larger group, are any persons or entities outside of the business who interact with it or are affected by it. This includes groups like suppliers, customers, governments, and competitors.

Another way of classifying stakeholders is as direct or indirect. A direct stakeholder is someone the company interacts with in a direct and intentional manner. This includes stakeholders like customers, suppliers, creditors, as well as employees, managers, and shareholders. It is anyone the business seeks to interact with in the operations of their business. Indirect stakeholders are those who are affected by the operation of the business, but who do not directly interact with it. This includes business competitors but also populations of people who are affected by the business operations in their area. If a new Starbucks goes in next to an elementary school, all the parents and children of that school are indirectly affected by its operations -- especially as it causes an increase of traffic earlier in the morning while the children are walking to school.

Similar to this last type, is an understanding of stakeholders as primary or secondary. Primary stakeholders are those a business cannot operate without. If there were no employees, suppliers, or customers then a business could not operate. It has been argued that this lens (primary/secondary) should be predominantly used in prioritizing the interests of stakeholders as these groups have the most sway over whether the business continues to operate. Secondary stakeholders are still affected by the business, and should still be considered, but the business may continue to operate without them -- though perhaps less effectively and successfully. These are groups like non-governmental organizations (NGOs), competitors, media, special interest groups, etc. In the earlier example of the Starbucks going in next to the elementary school, consider the reaction of the PTA (parent-teacher association) at that school. They may seek to act against the company because the increased volume of impatient and under-caffeinated motorist poses an increased risk to the children. The coffee shop may still continue to operate, having not broken any laws and having sourced its customer-base from a broader range than just the local neighborhoods. However, not effectively considering the interests of such a community group could lead to poor media representation, a decrease in customers, and a downturn in profit.

Finally stakeholders can be classified as either market or nonmarket. This simply means the nature of the relationship with the stakeholder is based in economic transactions or it is not. Employees, financiers, managers, and shareholders are all among market stakeholders. Money is changing hands in a free-market exchange and so the basis for the relationship is one of commerce. However, nonmarket stakeholders are still effected by the business (maybe even monetarily) but the nature of the relationship is not one in which money is changing hands between the two parties in a free-market exchange. Examples of nonmarket stakeholders are competitors, government, NGOs, media organizations, and the like.

It is important to note that a stakeholder can fall into more than one typology, which is due to the complex and varied nature of the roles people fill in society. A person may work at that Starbucks and as an employee fill one set of stakeholder roles, but also have a child who attends the local elementary and, in that capacity, fill other stakeholder roles. Within government there are many different agencies and some may be primary stakeholders, the business relies upon for operation, where others may be secondary. Below is a table that offer some clarity on where stakeholders fall most often in their relationship to a business.

Stakeholder Types Table

Stakeholder Type	**List of Stakeholders**
Internal Stakeholders	Employees, Managers, Shareholders
External Stakeholders	Government, Suppliers, Customers, Competitors, Financiers, NGOs
Direct Stakeholders	Employees, Managers, Shareholders, Suppliers, Customers, Financiers
Indirect Stakeholders	Competitors, NGOs, Local populations or affected third parties
Primary Stakeholders	Employees, Customers, Financiers, Shareholders, Suppliers
Secondary Stakeholders	Government, Media, Special Interest Groups
Nonmarket Stakeholders	NGOs, Competitors, Local community, Government
Market Stakeholders	Employees, Shareholders, Suppliers, Financiers, Customers

Stakeholder Salience

The salience of something is generally understood as the degree to which is stands out from its surrounding context, typically due to its relevance to an issue or party. A stakeholder has a higher degree of salience when they stand out from others stakeholders as being more important to a business. This has been found to occur when a stakeholder possesses higher degrees of power, legitimacy, and urgency.

Stakeholder power refers to the stakeholder's ability to act in such a way as to influence the operations of the company. The nature of a stakeholder's power is very closely tied to their type or classification. Lawrence and Weber have identified the following forms of stakeholder power: economic, political, legal, informational, and voting. Economic refers to a stakeholder's power to use money or market forces to influence a business's operation, such as customers refusing to pay higher prices or rival businesses driving down prices competitively. Political power refers to the ability of stakeholder to influence or utilize government to regulate business operations. Persons in government obviously have political power but average citizens can also mobilize government to act on their behalf. Legal power refers to utilizing existing laws to hold business accountable, most typically through the filing of lawsuits against a company. While laws seek to more universally hold businesses accountable, the high costs of this type of power reduce the ability of some stakeholders to actualize it. Informational power is most directly held by media organizations, who can use information about what a business is doing to mobilize others to use their power to impact a business. However, the Internet and specifically social media, have broadened the use of informational power to more stakeholders. Finally, voting power belongs very specifically to a stakeholder who has the ability to vote on what a business will or will not do. This is a privilege almost exclusively held by shareholders of a company, and attributed to them relative to the amount of stock they own that company.

Stakeholder legitimacy refers to the degree to which a stakeholder's interests or attempts to influence a business are seen as appropriate by the larger context of society. It often requires the stakeholder being able to demonstrate a causal link between the actions of a company and the interests, often relating to harm done to, a stakeholder. Prior to broader public awareness, and things like a Surgeon General's Warning, an individual who was harmed by the smoking of tobacco had a higher degree of legitimacy in seeking to hold tobacco companies accountable. Now, if an individual develops lung cancer from an addiction to cigarettes, their case against the company holds less legitimacy.

Stakeholder urgency is a metric referring to the perceived time-sensitivity of a stakeholder's interests or demands. It can be represented in a number of different ways such as shareholder's expectations to receive quarterly dividends, or by a dying persons need for medical care when the causes are related to a business's operations, such as the 1993 case against Pacific Gas & Electric (PG&E) and their reticence to accept responsibility for contaminating water supplies in California.

Power, legitimacy, and urgency combine in unique and different ways and can be amplified by stakeholders coalescing into groups or networks where they leverage their power or increase their legitimacy by working together. Stakeholders have the ability to force businesses into action, which can be negated if businesses work proactively to address the needs of stakeholders. This proactive approach is more ethically sound and can often save businesses money in the long run, both in terms of litigation as well as in operations, market share, and public perception.

Clarkson Principles *as represented and interpreted by the Caux Roundtable organization.*

Following a 10-year long research program, Dr. Max Clarkson formed these rules about stakeholder management, which have been adopted, modified, and integrated into countless organizations. Click on the above link for a more in-depth look at the seven principles summarized below:

- Corporations should routinely monitor the status of stakeholders, and take relevant stakeholder interests into account in decision making.
- Corporations should communicate openly and clearly with stakeholders, particularly about their respective contributions and benefits, and about the probability and severity of downside risks to which they may become exposed as a result of their contact with the corporation.
- In dealing with stakeholders, corporations should adopt processes and modes of behavior that are accessible to relevant parties, and appropriate in view of their commitments, contributions, and risks.
- Corporations should attempt to distribute the benefits of their activities as equitably as possible among stakeholders, in the light of their respective contributions, costs, and risks.
- Corporations should avoid altogether activities that might give rise to unacceptable risks to stakeholders.

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Public Issues & Issue Management

Public Issue

A public issue is any issue that is of mutual concern to an organization and one or more of its stakeholders. A public issue arises because there is a gap between what the business is doing and what the public expects. Consider that people in India expected Coca-Cola to develop their product at the local plant without depleting precious water tables in the region. When the company was found to have done this, they failed to meet the expectations of the public and a *performance-expectations gap* was created[1]. This simply means there was a perceived gap between the corporation's performance and what society expected of them. The performance-expectation gap is a clear sign of a public issue.

Issue Management

Issue management is the process by which companies seek to close the performance-expectation gap created by their operations failing to meet with societal expectations. This process involves heavy collaboration with stakeholders, who will sometimes form themselves into a stakeholder coalition to fortify their ability to meet the business on more equal footing. Lawrence and Weber identify a five-step process beginning with identification of the issue, analysis of the contributing factors and stakeholders involved, generating the options for the company considerate of resources and demands, taking action to address the issue and provide redress for externalities where appropriate, then finally evaluating the results as a last measure to ensure the performance-expectation gap has been closed or significantly narrowed.[2]

Synergy in Stakeholder & Issue Management

Another model for issues management seeks to more greatly involve the role of stakeholders. Mahon, Huegens, & McGowan [3] believe that if companies are to actively and effectively engage with stakeholders in the management of public issues then three phases should occur. These phases give the business a good handle on what the issue is, whose involved, and what responsibilities lie with whom for making amends. The three phases are:

- **Naming** - "the naming of an issue provides a great deal of insight into which stakeholders are likely to become engaged, whether the issue is to be centered on facts/values/policy, and in which arena the issue is likely to be resolved." By effectively putting the correct label onto what the issue is (e.g. discrimination, pollution, fraud) it gives the business an ability to identify which stakeholders should take precedence in responding to the issue.

- **Blaming** - "involves the identification of a culprit (individual, organization, process, government, and others) to hold responsible for the problem/issue." This important step allows for appropriate accountability to be placed on the business, or individuals within the business, who should be called to account. Justice requires accountability for one's actions. Consider the importance of this in the scandal with Volkswagen's diesel cars (#dieselgate) which led to the termination and imprisonment of company executives[4].

- **Claiming** - "where specific demands are made upon someone (usually the blamed organization) to deal with the problem or issue." This final phase allows for a resolution to be found between the harmed parties and the perpetrator of the harm. It is the phase in which the harmed parties get to say: *Here is what we need to make this right*.

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Externalities as Public Issues

Externalities in the Fossil Fuel Industry

An externality is an unintended side effect or consequence of an industrial or commercial activity by a business. The costs of externalities is born by the outside party and not by the business. The Carbon Majors Report of 2017[1] reported that over a relatively few short decades only a handful of corporations (100) are responsible for over 70% of all carbon-based pollution on the planet. The companies are oil and gas companies and the responsibility refers not only to the operations and productions of the companies, but also to the use of their product. Where the purpose of harvesting and selling fossil fuels is energy use (heating/cooling homes, transportation, etc.) the production and use of fossil fuels creates carbon emissions. This increases the level of greenhouse gases in the atmosphere, warming the planet, changing the climate, and endangering life. This is definitively an externality of the fossil fuel industry. Though the harmful effects of fossil fuels are an externality, they have not been unknown to the companies. As early as forty years ago, if not more, research was conducted by the oil and gas industry that illustrated the harmful effects of fossil fuels [2]. As there has been relatively insignificant change in how the companies have operated it would appear they have ascribed to Friedman's concept, where the greatest social responsibility they had was to maximize profit for their shareholders in the immediate here and now.

Externalities in Public Policy

Globalization of the market economy presents many unique and distinctive opportunities, as well as challenges, to business. However, there's no doubt that it has produced a wealth of opportunity for business ethicists. International trade has been growing for hundreds of years from its nascent roots in the spice trade between Asia and Europe. One of the problems raised by the modern globalization of supply chains relates specifically to conflict materials, i.e. resources that are collected unjustly and inequitably from impoverished or war-torn regions of the world. One of the most notable being the use of conflict minerals [3]. Companies who purchase minerals from countries with repressive dictatorships foster the externalities of slavery, rape, and oppression. This became such a problem that the Dodd-Frank Act of 2010 required that U.S. company's take steps to ensure their products as free of conflict minerals, specifically from the Democratic Republic of the Congo [4]. The DRC was perhaps the worst region for conflict minerals and would often try to mask the sale of the minerals by transporting them to neighboring countries. It may now look like this legislation has not had its intended effect [5] and other measures by corporations and governments may now be necessary. It appears the legislation has done more to harm local miners in the DRC who do not have the resources necessary to deal with the bureaucracy created by the legislation, where the war-lords responsible for the injustices simply found new sources for income to fuel their oppressive regimes.

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Week Three - Concepts & Terms

The below terms are the key concepts from your curricular content in the third week of the course. This is not new information; it is pulled from the text and lectures. It is intended only as an extra study tool to help you prepare for quizzes as well as the completion of other assignments.

- **Corporate Social Responsibility (CSR)** - the idea and corresponding practice that corporations are expected to contribute positively to society beyond the provision of goods and services created for profit.
- **Descriptive Argument for Stakeholder Theory** - stakeholder view is a more realistic description of how companies work, have to focus on all stakeholders to be successful
- **Economic Model of CSR** - limits a firm's social responsibility to the minimal economic responsibility of producing goods and services and maximizing profits within the law
- **Externalities** - a side effect of an action that affects a third party other than the buyer or seller. When the costs (i.e. negative effects) of a decision are externalized to nonparticipants.
- **General Systems Theory** - describes the properties by which all systems, including human societies, operate through interdependence upon a complex network of resources and relationships
- **Instrumental Argument for Stakeholder Theory** - states that stakeholder theory is more effective at managing a business and ends up being more profitable because stakeholders are happier
- **Iron Law of Responsibility** - in the long run, those who do not use power in ways that society considers responsible will tend to lose it
- **Issue Management Process** - the process or processes by which a business works to close or significantly decrease the performance-expectation gap.
- **Living Wage** - the minimum income necessary to meet normal standards of living in a given area, e.g. demands associated with housing, food, clothing, transportation, personal security, rearing children, etc.
- **Market Wage** - what an individual is able to demand from their employer because its what they would be able to get from a competitor on the open market
- **Normative Argument for Stakeholder Theory -** stakeholder management is the right thing to do, e.g. with great power comes great responsibility
- **Performance-Expectation Gap** - the perceived distance between what a firm wants to do or is doing and what the stakeholder expects.
- **Public Issue** - any issue that is of mutual concern to a the business and one or more of its stakeholders
- **Socioeconomic Model of CSR** - the concept that business should emphasize not only profits, but also act with consideration of the impact of its decisions on society. Supported by stakeholder theory of the firm.
- **Stakeholders** - the people or organizations whose interests, lives, or needs are affected by businesses' operations
- **Stakeholder Legitimacy** - the perceived validity or appropriateness of a stakeholder's claim to a stake
- **Stakeholder Power** - refers to the capacity of the stakeholder to positively or negatively affect the operations of the organization

- **Stakeholder Salience** - the degree to which a stakeholder stands out from others due to their power, legitimacy, urgency
- **Stakeholder Theory of the Firm** - a theory that holds that the purpose of the firm is to create value for society as a whole, not just shareholders.
- **Stakeholder Urgency** - refers to the time-sensitive nature required of a company concerning the stakeholder's need for immediate attention and response

The Case of the Hungry Children

Havells India Limited is an Indian brand and leading manufacturer of *fast-moving electronic goods* (FMEG) and power distribution equipment. The company's success has led it to becoming a globally renowned brand.

The company's growth and success is relatively remarkable for such a young company. In 1971, Qimat Rai Gupta, acquired a small electrical goods company named Havells under the QRG Group. He had a vision of converting this small business into a premier electronic goods manufacturing company in his home country of India.

The brand, since then, saw several mergers and acquisitions to become a global FMEG leader. In the year 2015, Havells successfully acquired a place in the world’s top five lighting companies.

In the year 2004, Havells researched to find out the logic behind unavailability of sufficient human resource for its Alwar Plant. It encountered the problems of poverty, malnutrition and illiteracy in the region. In short, there were not enough people in the region who were sufficiently, healthy, educated, and capable of filling the companies need for labor.

The study showed that children work in the farms instead of going to school, to earn a living. It was a challenging task for the families of the Alwar region to get sufficient meals twice a day, which made them starved and malnourished. The most affected of all were the children of this region.

Havells decided to deal with this situation by aiming at ‘Zero Hunger’ in the Alwar region. The brand joined hands with the government to initiate a mid-day meal program in various government schools of the district.

The food is prepared in the company’s state-of-the-art kitchen spread across 4 acres of area, engaging a workforce of 160 people. Havells made sure to give its best by ensuring proper control over procurement of grocery, food preparation, raw material storage and supply of prepared meals to schools.

The brand made sure that the diet chart approved by the government is strictly followed and proper hygiene and food quality are maintained.

Havells initially served 1500 students of 5 schools, and later the number increased to 60000 children studying in 693 schools in the Alwar district.

The principal idea behind this program was to motivate children to go to school by providing them with a nutritious, hygienic and fresh food as an afternoon meal daily. This initiative had met two primary CSR goals, i.e., child education and malnutrition.

The mid-day meal program brought a significant improvement in the conditions of the people in Alwar. It improved the overall health of the children and thus, transformed their lives by directing them towards a better future.

Let us now go through the other positive effects of this program:

1. **Higher Enrollment Rate**: The children who were unable to get proper meals at home were fascinated by the mid-day meals, provided at the school premises. Thus, there was a remarkable increase in new admissions in government schools.
2. **Develops Academic Interest and Improves Concentration**: The mid-day meal kept the students well-fed, which made them more active and attentive in the classroom.
3. **Better Academic Performance**: With the rise in student's concentration level, their interest and willingness towards learning also increased.
4. **Reduced Dropout Rate of Schools**: There was a gradual decrease in the students turnover and transition in the Alwar's government schools since the children cherished going to schools now.
5. **Enhanced Nutritional Intake**: The Body Mass Index (BMI) determines the health conditions of a person. MDM program ensured a nutritional meal for the kids, which improved their BMI within five years.
6. **Decreased Teachers' Burden**: Since the company had taken the responsibility of providing mid-day meals to the students, the teachers can utilize their time in academic activities.

Havells' program was initiated out of a concern of workforce scarcity; in other words, it was done to serve a need they had in their business operations. This is arguably not an act of charity, but an action of enlightened self-interest (action taken with awareness that what is in the public interest is *eventually* in the interest of the company). Havells engages in other CSR initiatives around clean water, tree planting, and health care - all of which benefit the company indirectly as the environment and society in which they operate grows healthier and stronger.

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Culture, Climate, and Values at Work

All groups of people who spend enough time together, engaged in common pursuits, develop a *way of being together* distinctive to the group. This way of being together represents the culture of the people. In the business world this is referred to as *organizational culture,* or a system of shared values, norms, and expectations used by people to work together cooperatively and effectively. The organizational culture informs practices, rituals, and habits of its participants, while also arising out of these same practices in a dynamic process of co-emergence you will read more about on the next page called complex responsive processes of human interaction.[1]

Of great importance to understanding what does and does not end up as part of an organization's culture are *organizational values*, or the shared beliefs of members about what is or is not important to them and why. What ultimately emerges as the values of an organization is a mixture of *personal values* of the members, and the *espoused values* of the company, negotiated with and against each other. Individuals enter the organization with their own values already established and then encounter the values the organization claims to have, which are typically expressed through policies and statements of leadership. Employees then attempt to merge these two, often adopting or modifying practiced versions of the values that more closely align with their own personal beliefs. As there is never perfect alignment in all values, or the understanding of how those values should inform practice, the tension in this process requires constant and ongoing communication and negotiation between participants.

This process informs what is called the *ethical climate*, which is the understanding (often unwritten) of what is and is not acceptable conduct within the organization. Work has been done in recent decades to measure the ethical climate in an organization using the Ethical Climate Index,[2] which assesses the moral sensitivity, moral awareness, moral judgement, moral motivation, and moral character of individuals in the organization. Since the inception of this tool many research findings have uncovered positive correlations between productivity, job satisfaction, and retention with the ethical climate of an organization. One study found that in jobs of particularly high moral distress, such as nursing, an increase in ethical climate of the organization showed a correlating increase in job satisfaction of the employees.[3]

While a strong positive ethical climate is an asset to a company it is not always something easily attained. Unlike many top-down decisions in businesses, culture and climate are a complicated mixture of forces requiring participation on many levels. Executives cannot simply set the ethical climate by issuing companywide memorandum. As an example, for a long time Google had as its motto "Don't be evil", and only removed it after the creation of its parent company, Alphabet, adopted the motto "Do the right thing".[4] However, what it means to not be evil or to do the right thing requires a process of social negotiation, between persons situated in a specific context, who bring to the table their own histories and understandings of evil or right conduct. One individual's understanding of the right thing in a given situation may differ greatly from another individuals understanding. The complex histories and social resources people bring to this negotiation are largely informative of its outcome.

Research supports that people bring with them into this situation *core values*, a set of beliefs that are relatively fixed or that fluctuate very little, and as such they contribute to the organization's core values.[5] From the sharing and practicing of these core values an ethical climate occurs that is more or less stable. Of course, not all participants carry an equal degree of influence in this process. Things such as tenure, ability, and personality greatly inform which voices carry greater weight in establishing and maintaining the ethical climate of an organization.

Leaders, especially senior executives, carry the greatest weight as they have both *formal power* and often *informal power*. The term formal power, also called legitimate or organizational power, refers to the organizational allocation of power to an individual through authenticated channels. Simply put, it means the organization has put someone in charge. Informal power, also referred to as interpersonal or social power, refers to an individual's ability to use persuasion as a means of convincing others to a particular point of view. In business, senior leadership often has both types of power. This gives them a unique ability to set the *tone at the top*, which is a set of espoused and practiced values set in place by the corporate leaders.[6] The tone at the top is a bellwether to employees in the organization, signaling an expectation (or in some cases permission) to act as the corporate leaders do. This is one reason why it can be so disastrous when corporate leadership is caught in a scandal; others in the organization may not begin to justify less ethical behavior by comparison the actions of leadership.

Ethical climates tend in one of two directions in business: compliance-based or integrity-based.[7] A compliance-based ethical climate is one focused on adhering as closely as possible to a set of rules and regulations. There is little, if any, room for employees to determine for themselves a right course of action. Rather policies, laws, or regulations require strict compliance to prevent unethical behavior or workplace misconduct. These types of climates are found in places such as accounting, finance, or other heavily regulated industries. Integrity-based ethical climates are focused on a set of values that employees are asked to align their behavior with, which often requires the exercise of moral judgement. While following a manual is a straightforward activity this does not apply as closely to fields such management or marketing. As an example, when selling a product targeted toward young children it is important to respect their vulnerability and susceptibility to manipulation. In such a situation there could never be a singular set of specific rules for marketing agents to follow, but there is an imperative to protect young children from harm. It is then up to the marketing agent to determine where the line between persuasion and coercion resides, given the child's limited ability to make rational decisions about what is in their own best interest.

Interestingly enough, even though integrity-based climates provide less clear direction for employees, research supports that compliance-based organizations actually lead to employees seeking more guidance on decision-making than integrity-based organizations.[8]

This is likely because people, for better or worse, trust their own judgement more than their ability to follow a complex set of rules. In the event an individual violates an ethical value in an integrity-based organization they would mount a defense offering a rationale for their choice and attempt to align it with workplace values. In a compliance-based environment employees either have or have not followed the rule, and so, are more likely to check with managers about their alignment with rules before acting.

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Complex Responsive Processes of Human Interaction

Organizations are composite bodies of people, working together, around a common goal or toward shared objectives. As such, they are both the sum of, and more than the sum of, their individual parts. That's not a paradox... it's just complicated. Organizations have distinctive culture and values that mirror and mimic the individuals that comprise them. How these cultures and values come to be, and what can be done about it, is the concern of Ralph Stacey's theory of complex responsive processes of human interaction.

The theory of complex responsive processes of human interaction[1] was created because of dissatisfaction with existing systems theory, which presented human organizations in the same manner as cybernetic systems, e.g. mechanical or mechanistic systems. Much of the systems thinking in the late twentieth century followed a straight forward input-output model. This led to the belief in management practices that outcomes could be controlled with a fair degree of certainty if only the right things went into the management practice of people. What CRP gives us is an understanding of the complexity of organizational life in which the future is unknowable and unpredictable. Because people are constantly *acting toward a future* that is constantly changed and shaped by their very actions, certainty about how people will respond as this future unfolds is out of reach. Stacey's claim that "human organizations do not operate in the say as non-human [systems]" because "human action is not a system and it is limiting to think of it as such"[1] has been borne out in research time and again for the last twenty years. CRP tasks managers to focus on local interactions, continually search for patterns in these interactions, so that they can understand and influence local interactions. These local interactions are what cascade outward to give rise to organizational identity, corporate meaning, and are informative of what outcomes will be produced. Managers who are involved in local interactions will develop a better sense for how employees will respond, without ever developing the means to extract *specific* and *controlled* outcomes from the organization with complete accuracy.

One example is to look at the language used by people, both the way it is used and the meaning it holds for them. This aligns with the *Sapir-Whorf Hypothesis*, which posits that people's experience of language shapes their understanding of what the world is and what is possible (or probable) within it. Only managers who look at how people are communicating, and are able to suss out the deeper meaning (often unspoken), will understand how to effectively influence people toward any given end. Even though people *can* be conditioned to respond to certain stimuli, this does not mean behavior, or the specifics of the meaning-making process, can be controlled. To understand and effect someone else's beliefs about what values should or should not hold sway in a certain context, you have to be able to communicate with that person in a way that is meaningful to them. This occurs most effectively from within the context of a relationship where shared patterns of interpersonal communication have developed.

It is only through engagement in complex responsive processes with others that organizations and organizational values can be understood. Thinking of people as abstract concepts does not yield an understanding of the organization as a system, as it does with the study of non-human systems. People are too complex for that degree of control. Their action toward a future that is unknown and under perpetual construction, indicates a *transformative teleology* - meaning the purpose of human action is to shape, and respond to, their environment as they shape it. The more closely managers pay attention to local interactions of people, and are engaged with them in those interactions, the better their ability to understand what is happening in the near and present future. Understanding an organization requires a degree of synchronization with that organization if it is to make sense to you the way it makes sense to others that are there.

Consider these points about CRP[2] to explain how organizations come to be, and to persist in, what they are:

1. An organization is comprised of human beings.
2. Human beings are social animals, which are only and always engaged in acts of relating.
3. These acts of relating are done in patterns born of the biological nature of the human body as a responsive and patterning organism.
4. As these relational interactions occur they themselves naturally form patterns, which support persistence simultaneous to transformation.
5. These patterns of interaction are purposive, knowledge generating, and meaning driven.
6. Through these social interactions people form both individual identity and contribute to social identity. Primacy is not afforded to the individual or the social, but both are mutually and simultaneously constructed.
7. The patterns of human interaction are shaped by the complex histories, social resources, and responsive tendencies of the members involved in the social processes. Thus, each pattern of human interaction is unique, and combines uniquely with other patterns. In this way the multiplex combination of patterns of human interaction form distinctive social identities, which we call organizations.
8. An organization is only and always emergent from the complex, human, social interaction, which patterns itself in coherent and practical ways.
9. Boundaries and parameters for what is inside and outside of an organization exist only through participative reification and are supported only through corporate consensus. That is, through social process of establishing an organizational identity, there is an attempt at including some things and excluding others from the organizational identity.
10. Things which exist ‘inside’ the organization are only those things which are present in, and/or exist as a result of, the social processes taking place between the human beings that comprise the organization.

The interplay of emotions, cognition, social histories, resources, events external and internal to the organization, formal and informal power structures, as well as a host of other factors, all combine uniquely in an iterative manner to form a distinctive moment in time. Understanding and sharing in these moments with others is what helps our physical and mental self develop a *sense* for the patterning of organizational values into a culture or ethical climate.

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Ethical Pitfalls in Organizational Culture

Most people operate on the belief they are ethical people, and the places they work in are ethical businesses. So this begs the question, how can there be so much unethical conduct occurring in the business world? There are several things occurring, psychosocially, that help to elucidate the causes of this behavior. It's important to remember that ethical decisions are not made in a vacuum. The social environment in which we live, work, and relate to others greatly influences the process of making ethical (or unethical) decisions. Review the below phenomena occurring in organizational life:

- **Inattentional blindness:**
    - Inattentional blindness, also called perceptual blindness, is something that happens when a person fails to see the moral shortcomings in an organization or in a person because they are focused on other tasks. For example, an environment in which people are repeatedly asked to prioritize one set of tasks, such as product turnover, other issues, such as product sustainability, fail to be considered. A business, where managers ask employees solely to focus on task completion is prone to experience inattentional blindness to ethical issues.
- **Normative myopia**
    - Normative myopia refers to the tendency to ignore, or the lack of ability to recognize, ethical issues in decision making as a result of shortcomings in the moral milieu of the organization. When an organization normalizes behaviors that exist in ethical grey areas it creates a tendency for employees to be ethically shortsighted, to not consider the effects of their actions beyond immediate impact. When minor ethical situations are dismissed, employees become less concerned and less aware of the impact of their actions on stakeholders.
- **Change Blindness:**
    - Change blindness refers to a phenomenon of perception, or lack thereof, as change occurs slowly over time. If the ethical climate of an organization changes slowly, over long periods of time, people are less likely to notice new policies or practices as unethical. If a company went from being considerate of stakeholders one day, to inconsiderate the next, it would be called out. However, if the steps toward disregarding stakeholders occur slowly, over two years, then people are less likely to notice.

Ethical Safeguards in Business

In an ideal world, every person would be ethical all of the time. Since we don't live in that world it is prudent for an organization to build into its structure some mechanisms that promote, augment, and empower people to take ethical action. These mechanisms are called ethical safeguards because their intent is to guard against unethical action. Below are the several proposed and prominent ethical safeguards in business practice:

Ethical Design

Managers and executives have a large degree of power to influence the culture of an organization through a number of design factors. While each of the following safeguards on this page represent a tool to be used in organizational design there are specific and smaller things which can be done to design the physical, as well as hierarchical, elements of an organization. Some of these opportunities present as passive in nature. These include things like signage promoting ethical behaviors or creating physical structures that promote transparency and openness, which help to facilitate ethical behavior. Some of these design opportunities are more active in nature, such as incentivizing ethical behavior through a reward system. It may also include efforts to set up reporting structures that incorporate ethical checks and balances, as well as not overwhelming middle management with direct reports, which allows time and space for ethical discernment to occur. The focus of ethical design is on creating systems and structures that naturally facilitate the implementation of values and ethical decisions. Just like building a high-performance race car, most of the work goes into the design, which makes life easier on the driver when race time comes.

Ethical Audits

One way to address many of the ethical pitfalls that can occur in the business environment is to bring outside parties to assess your practices. Consulting agencies will often have teams who specializes in areas of compliance and ethical performance. These parties can come into your organization with greater objectivity and investigate practices for possible problems. By using an ethic of foresight, an auditing team will use industry best practices to assess when, where, and what may cause potential ethical pitfalls in the future. There are number of reasons why companies may fear using this safeguard. The recommendations of external audits can come with a price tag, depending on how complex or involved they are. However, this is often preferable for companies to later costs associated with public scandal or other costs that can be associated with ongoing unethical practices. The use of *external* auditors is preferred because they are able to speak to power in the organization without concern for retribution or blowback.

Ethics & Compliance Officers

Increasing misconduct through the 80s and 90s, and the concomitant costs of that behavior to businesses, has led to a surge in corporate hiring of ethics and compliance officers. Some of these positions are placed high up in organizations such as Chief Compliance Officers. The number of these c-suite executive compliance officers doubled in the first five years of the 21st century. This surge was fueled by further misconduct that led to the demise of some corporations and caused federal legislation to increase the amount of oversight. With a growing emphasis on compliance and ethics, these positions gain increasing responsibility in business operations. Ethics and compliance officers are usually a first step or starting point for comprehensive ethics programs. When given the power to conduct audits and implement comprehensive ethics programs these positions can serve as a very effective safeguard against unethical behavior and prove very cost-effective for businesses to employ.

Ethics Policies

In tandem with an increase in ethics officers, ethical policies have been on the rise. This often takes the form of a code of conduct or an integrity policy for employees. The policy spells out behaviors that are and are not permissible by the organization in the course of business operations. They detail how employees should comport themselves, how they should treat customers, fellow employees, and vendors. They cover a broad range of behaviors from small scale theft of office equipment to embezzlement and mismanagement of corporate funds. The downside to ethics policies is that they are often introduced only during an on-boarding process, or sometimes during cycles of promotion and review. Additionally, policies tend to be either overly vague, and so open to interpretation, or overly specific, and prone to loopholes. The most effective ethics policies are tied into the values of a company mission and vision statement. Since no policy can cover all unethical behaviors, it is most effective for an ethics policy to cover the most frequent instances of misconduct and then to include aspirational values that encourage employees toward ethical behaviors. Ethics policies are far from the most effective safeguard but are an essential component of a comprehensive ethics program.

Ethics Training Programs

Businesses have a vested interest in training their employees to do their jobs to the best of their ability, and various types of in-service or professional development are generally made available to employees. However, many businesses go so far as to require employee ethics training programs that are designed to help employees become more aware of ethical pitfalls and develop ethical reasoning skills. This ethical safeguard is generally the most expensive as it usually requires both the cost of the training itself, as well as the cost associated with taking employees away from work for a period of time. Both the duration and the frequency of the training are associated with its success. So programs that are more time-intensive and conducted semi-annually are the most effective ethical safeguard. Training is generally among the most effective safeguards because it's an investment in developing people's skills and abilities. To the degree that ethical behavior saves the business from costs associated with misconduct, this ethical safeguard is seen as viable options for companies.

Ethics Reporting Hotlines

When all else fails, having some mechanism for reporting ethical concerns serve as the safeguard that allows unethical behavior to be called out. It is important for accountability to be able to exist unilaterally in an organization. Power structures in organizations can create a fear of retaliation for reporting unethical behavior. For this reason, the ability to report unethical behavior to a chief ethics officer is usually done through anonymous means of communication, such as a hotline number or online reporting form. The existence of an anonymous hotline also serves as a deterrent to unethical behavior. Individuals who know that their unethical behavior may be observed and reported by anyone are less likely to engage in the behavior. An ethics reporting hotline effectively turns the employee population into an ethical safeguard.

Workplace Rights

In the United States all people are provided certain rights by the government going back to the 18th century and the founding of the nation. These rights have grown and developed over the centuries as our country has changed and continues to progress into the future. Now, employers in the United States are given certain protections, but also required to provide certain protections to their employees. Below is a table of employee/employer rights and responsibilities:

Table of Employee/Employer Rights

Employee Rights	Employer Rights
Safe Work Environment	Drug Testing
Free from Harassment & Discrimination	Intellectual and Physical Property
Organize and Bargain Collectively	Electronic Monitoring
Fair Wages for Labor	Dress Code
Personal Privacy	At-Will Termination

Employees have the right to a workplace environment that is free from unnecessary dangers or risks, while many jobs carry an inherent risk with them, the Occupational Safety and Health Administration (OSHA) is responsible for seeing the employers mitigate these risks to the extent possible.   This work environment is also obligated to be free from harassment and discrimination, only if based on a category of protected class. Examples of categories that people cannot be discriminated against for are race, sex, marital status, or religion. Age is an example of a protected class but only for older populations. Businesses are allowed to discriminate against youth, as it can be commensurate with a lack of experience, but not against people over the age of 40. As of 2020, the Supreme Court ruled that sexual orientation falls under a protected class for employment purposes.

Employees also have the right to organize and bargain collectively with their employers. This specifically, but not exclusively, references the practice of unionizing. While businesses and special interest groups may work to make the practice of unionizing difficult to achieve, they cannot prohibit it. This typically is not an issue if employees believe they are receiving fair wages (or other compensation) from their employer. The United States federal government has set a national minimum wage, though at $40 hours a week, this wage does not meet the cost of living requirements for most places in the United States.

The right to privacy can be a fine balance between the rights of the employee and the employer. While employees can expect their employer to not invade into the privacy of their personal lives, the line between personal and professional lives grows increasingly muddled over time. Businesses have a right to electronic monitoring of their employees professional activities, or activities that employees engaging in using company resources. Many employers provide telecommunications equipment to employees (smartphones, laptops, etc.). Any use of this equipment is subject to monitoring by the employer, because the employer has a vested interest in the use of their property and the professional conduct of their employees.

For most companies today, their true capital lies in intellectual property. This means the proprietary systems and methods they use to operate within their industry. This intellectual property must be protected by businesses in the interest of both profit and competition. Because of this electronic monitoring is on the rise in many businesses.

Employers also have the right to require a dress code of their employees, specifically because the employee is serving as a representative of the business interest. Separate dress codes for men and women long as the dress code does not put an undue burden on one sex over the other.

Employers also have the right to test employees for substance use, such as drugs and alcohol, as they present a potential threat to the workplace. Employees who enter the workplace in an inebriated or altered state introduce an unsafe element into the workplace. As employers are responsible for providing a safe workplace, they have been afforded the right to test employees to help promote this environment.

In the United States employers experience different degrees of at-will employment practices. This means that businesses can hire or fire employees for any reason and typically without advanced notice. So long as the employee cannot prove the termination took place based on a protected category, the business has the right to terminate the relationship.

Employee Privacy and Employer Rights

In the United States the Fourth Amendment guarantees the "right of the people to be secure in their persons, houses, papers and effects, against unreasonable searches and seizures." This where much of our understanding of a right to privacy comes from. However, in the workplace the right to privacy is far more complicated. When you are using a computer or making a phone call at work you are usually not using your own equipment to do so. Many companies provide employees with a cell phone and data package, or even a vehicle, that employees often use for both business and personal reasons. Does this mean that the company has the right to read your text messages and emails?

Electronic monitoring is increasingly simple for businesses to achieve and to some extent represents a modern day Panopticon, in which people may be watched at all times without knowing it. If you are using company devices, on company property, or conducting company business you may very well be relinquishing your right to privacy. As people's lives (work life and personal life) become increasingly interconnected, and these lines blur, privacy rights become increasingly problematic.

In most legal cases, courts have upheld that employees do have a right to privacy in the work place unless their behavior is clearly and adversely affecting the interests of the employer. However, since employers can easily link tracking of your online activity to time-wasting and a lack of productivity, it is not hard to make a case that businesses have a right to monitor employee's digital actions. Even potentially talking badly about a product or initiative of the company online can qualify.

Employee Wages & Compensation

Employees have both an ethical and a legal right to fair payment in return for the services they provide their employer. Those are both incredibly powerful and ultimately empty words. What does fair payment mean? It is a concept that is constantly redefined, undermined, and exploited in the global marketplace. Many societies establish a minimum wage as a legal requirement for paying an employee, but even these are inconsistent around the world.

Explore this site World Population Review: Minimum Wage by Country. On the right-hand side of this site are other articles dealing with income by country. Explore how minimum wage relates to GDP, Income Levels, Cost of Living, and other metrics listed there. There are loose connections across the board between minimum wage laws and the wealth of nations or poverty levels. As an example, the US has the 13th GDP per capita and the 12th highest minimum wage, where Luxembourg has the 3rd highest GDP per capita and the highest minimum wage. This would seem to suggest that equability in compensation promotes overall economic growth.

Here in the United States, minimum wage exists at the federal level, with states having the ability to raise minimum wage above the federal level. Some businesses have taken steps to address income inequality and fair wages beyond the government mandated levels. Gravity Payments, a credit card processing company, is one of those business. In 2015, CEO Dan Price, announced a $70,000 minimum wage at his company. Something he planned to achieved by slashing his own

$1 million salary in order to pay for it. No cost was passed on the clients or consumers of the business to achieve this goal - in other words the service did not become more expensive to provide. At the time of the move, it garnered wide spread acclaim by most and criticism by some. The actual results have proven the value of the decision as profits have increased, the client base has grown by approximately 80%, and overall productivity has risen.

Consider for yourself, how much disparity between CEO and median employee pay is ethical? Is there a more ethical way to determine pay rather than market demand? The benefits of our current system are evident as, by many metrics, this is the most prosperous time in human history. However, the spirit of capitalism is one of progress and improvement, so what are the downfalls of our current system and what could be done to improve it?

The Role of Implicit Bias in Organizational Diversity

Implicit bias is an unconscious association, belief, or attitude toward any social group or construct. It is a predisposition toward something, of which a person is not consciously aware.[1] Such an unconscious disposition comes to be due to the pattern of exposures people have in their experience of culture. The human mind is a phenomenon with high plasticity, constantly being shaped and influenced by external stimuli to which it responds in both intentional and automated ways. The human tendency to exert conscious control over reactions is limited in comparison to the number of responses that operate on automation. Because of this it is possible to experience a great degree of cognitive dissonance between a consciously held belief and an implicit bias.[2]

The overwhelming human tendency is to act in accordance with what is familiar and comfortable until such an event occurs to question this autopilot mode. This has been described by some as a self-bias or a majority bias; that people are most comfortable with what they most often experience which tends to be themselves and the people with whom they spend most of their time.[3] The human mind absorbs its environment constantly as it negotiates meaning in social situations with other people who are participating in shared enterprises. Guarding the unconscious mind against external influences is not only incredibly difficult, it is not something people often endeavor to do. Many of our value beliefs about right and wrong, what we might call our gut feelings on something, are formed implicitly through social interaction.

All persons have an array of implicit biases, as all people have an unconscious mind, but not all implicit biases are necessarily harmful. Yet many times an implicit biases can unfairly or harmfully disadvantage others. For a variety of reasons from interpersonal power dynamics, systemic disenfranchisement, or competency deficits, it can be increasingly difficult for an individual to point out when they are the victim of another's implicit bias.[4] This difficulty is compounded by the fact that the carrier of the implicit bias is unaware of their own attitudinal predisposition by definition.

It is possible with training to become aware of, and develop skills to obviate, one's own implicit bias.[5] This is important both ethically and practically because if unchecked, implicit bias in an organization can be detrimental to inclusion and diversity, create hostile workspaces, and cause a decrease in productivity. Harvard University has made available free Implicit Association Tests[6] on a number of topics from race, gender roles, skin tones, disability, and many others. The first step to addressing one's own implicit bias is uncovering it. Implicit Association Tests or IATs have been scientifically validated time and time again, but should not be used without first understanding that implicit bias is 1) nothing to be ashamed of 2) not intended to describe a person's consciously held beliefs 3) not intended as an indicator of what a person will or will not do. The unconscious mind is but one aspect of the complex mixture of identity and action. You are invited to participate in an IAT as one piece of information about how to make more inclusive, ethical, and intentional decisions regarding how you actualize values in your business environment.

To be human is to use the unconscious mind to make decisions, and the unconscious mind does not engage in higher-level rational thinking. To not intentionally counteract this process with reasoned analysis is to give in to it, and to give into it is to allow implicit bias to shape our organizations in ways that we would not intentionally choose.

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Week Four - Concepts & Terms

The below terms are the key concepts from your curricular content in the fourth week of the course. This is not new information; it is pulled from the text and lectures. It is intended only as an extra study tool to help you prepare for quizzes as well as the completion of other assignments.

- **Compliance-based Ethics** - ethical standards that emphasize preventing unlawful or unregulated behavior by increasing control and by strict measures of discipline
- **Complex Responsive Processes of Human Interaction** - a theory of organizational processes that focus on the emergent and dynamic nature of human-decision making through examining the way in which people use their social resources and identities to relate to others in ways that form mutable patterns of interaction.
- **Change Blindness** - when people fail to detect changes to the ethical norms of an organization because they occur slowly over time
- **Espoused Values** - explicitly stated values and norms preferred by an organization
- **Ethics and Compliance Officers** - chief executive in charge of implementing the array of ethics and compliance initiatives in the organization
- **Ethical Climate** - represents employees' perceptions about the extent to which work environments support ethical behavior, informs employees about what is and is not permissible in the organization.
- **Ethical Design** - considering moral issues when designing and structuring an organization in a way that fosters, promotes, or facilitates ethical behavior.
- **Ethical Policies or Codes** - a written set of rules used to guide managers and employees when they encounter an ethical dilemma
- **Ethics Reporting Hotlines**- things such as anonymous hotlines or online reporting forms where employees can report unethical conduct to superiors without fear of retribution
- **Ethics Training Programs** - programs designed to teach employees how to respond to the types of ethical dilemmas that might arise on their jobs
- **Formal Power** - that which is formally allocated by a system or group to particular people, based on a persons position in an organization.
- **Implicit Bias** - attitudes or stereotypes that affect our understanding, actions, and decisions in an unconscious manner
- **Inattentional Blindness** - a failure to perceive ethical shortcomings because of a focus on other matters
- **Informal Power** - operates through relationships, influence, and individual reputations without formal status
- **Integrity-based Ethics** - ethical standards that define the organization's guiding values, create an environment that supports ethically sound behavior, and stress a shared accountability among employees
- **Normative Myopia** - The tendency to ignore, or the lack of the ability to recognize, ethical issues in decision making because of moral shortcomings in one's moral milieu
- **Organizational Culture** - a system of shared values, norms, and expectations used by people to work together cooperatively and effectively
- **Organizational Diversity** - variety of demographic, cultural, and personal differences among the members of an organization
- **Organizational Values** - beliefs and principles defined by an organization to direct and govern its employees' behavior

- **Panopticon** - a social mechanism of control where people know that while they are not watched all the time, they may be watched at any time.
- **Personal Values** - an individual's beliefs about what is most important and why
- **Tone at the Top** - a set of espoused and practiced values set in place by the corporate leaders
- **Transformative Teleology** - the idea that people act toward a future that is perpetually being changed by their ongoing construction of it, thus requiring constant adaption.

Opposing Views of Corporate Moral Agency

What is Moral Agency?

Earlier in the course we covered the importance of individual agency in market relationships. A fair and equitable marketplace requires that people are possessed the ability to engage with each other with comparable degrees of power, knowledge, and opportunity. In this context, agency is referring to people's ability to consciously exert their own will in pursuit of their own ends; in other words, to have desires and interests, and then be able to pursue those desires and interests, is the exercise of agency. However, this is complicated when referring to the desires and interests of corporations. This is how businesses are discussed in the mainstream conversations of the economy, e.g. General Electric initiated a stock buyback program to consolidate power, Walmart built 30 new stores last quarter in an aggressive bid for expansion, or Apple filed a lawsuit seeking to protect its intellectual property. So what is meant by these discussions of corporations having interests and acting to pursue them? Is it different than individual action and agency? If so, how and why does it matter? Even more important than the topic of agency itself is the idea of *moral agency*, which refers to the capacity to recognize right and wrong action and be held accountable for moral choices.[1] There are two opposing views on this topic that serve to highlight why it's important to pick as side on this issue. Either a) corporations do have moral agency and should be treated as such or b) corporations do not have moral agency and cannot be treated as such.

For and Against the Moral Agency of Corporations

On the pro- side of corporations having moral agency is Peter French who advocated for the position that a corporation should be held morally accountable for their actions, because they are moral entities.[2] He argued that as people are morally accountable to each other, corporations should have an identical status as moral agents. French's case requires us to examine both the concept of agency and the concept of moral accountability. French wants to put forward two types of responsibility. The first relates to being the cause of the event, i.e., being the thing that caused another thing to happen. The second relates to being accountable for the cause of said event. The following is an example of how type one, but not type two, responsibility can be applied. There is a house at the bottom of a hill, above which are some rocky outcroppings. One day, there are particularly high winds up at the top of the hill and some rocks are blown loose, which collide with other rocks, and cause a landslide of boulders to roll downhill and obliterate the house. What is responsible for the destruction of the house? On this day, it's the wind. It caused the event. However, type two responsibility doesn't apply because the wind is not something which can be held accountable for blowing. It did not act with intentionality or consciousness. Now, resetting that same scenario with the house at the bottom of the hill, imagine around the corner from that house is a construction operation doing blasting to clear away the opposite hillside and build warehouses for a business. The foreman gives the go ahead for blasting and the vibrations cause the rocks on the other side of the hill (where the house is) to come loose, cascading down to the house and crushing it. Now here we have type one responsibility, because the blasting *caused* the landslide, and we also have type two, because the people responsible for type one can be held accountable. If though they did not intend the destruction of the house, they did act with intention, they chose to blast the opposite side of the hill.

French argues this is how responsibility is determined, based on the agency of the causal event. The wind doesn't have agency, it just blows wherever based on natural forces like air temperature, moisture, rotation of the earth. However, because the construction crew made a choice, this indicates their agency. They could have done otherwise but they did not. French argues this applies to corporations as well, saying it will "be shown that there is sense in saying that corporations and not just the people who work in them, have reason for doing what they do." He describes what he calls a Corporate Internal Decision (CID) Structure that functions for the organization like an individual's agency functions for them.

The CID structure possesses 1) an organizational or responsibility flow chart that delineates stations and levels with in the corporate power structure and 2) corporate decision recognition rules, typically embedded in things like corporate policy. French believes these organizational artifacts are sufficient to reify the organization as an agent itself. Reification (the act of reifying) means to consider or represent something abstract as a material or concrete thing; it means to give definite content and form to a concept or idea that it does not possess on its own. This happens in society all the time as people discuss abstract ideas in concrete ways. Justice is reified as a blindfolded woman holding scales, love is reified through acts of embracing loved ones, even though justice and love are not tangible things they are treated in real ways. When society talks of nations it does not talk of real or concrete things, but socially constructed ideas. If a person filled a jar with soil while in Ecuador and then moved across the border to Peru and dumped it out, the place where the soil is dumped did not become Ecuador. These are ideas represented by a map, drawn by people, and treated as if they are real. French argues corporations exist in this way, in the interactions of people, but this is sufficient to grant them moral status. After all, society does not speak of individuals engaging in war, but rather Germany invading France, or Russia invading Ukraine. Following WWI it was Germany that was held accountable for its actions, not the rank and file soldiers from the front lines. French argues that the CID Structure is sufficient to identify, trace, and recognize the interests of the corporation as distinctive from the people who comprise it.

On the other side of the argument is John Danley, who argues that corporations do not have moral agency and cannot be awarded status as moral beings.[3] He believes to do so would be disastrous for society. Rather, Danley argues that corporations are social constructs that mirror human intention but do not have intentions themselves. He proposes we think of corporations through a Machine Model, in which the corporation is designed and built to perform certain actions and then carries out those functions with what may seem like autonomy. However, just as one would not seek to hold a killer robot morally accountable for carrying out its function of terrorizing the countryside, one cannot hold a corporation morally accountable for doing what its creators designed it to do. Rather, Danley argues that individuals in the organization should be held accountable for their own actions and that the creators of the organization should be held accountable for the action of their creation. To support his argument Danley discusses methods for moral accountability in human relationships. First, when a person commits a moral transgression they are expected to feel or display some remorse for the situation. This affective response to causing harm to others is something an organization, as a reified social construct, cannot do - businesses cannot *feel bad.* Second, individuals responsible for moral transgressions are disciplined in ways that a corporation never could be. As corporations lack a corporeal reality they cannot be imprisoned in the way a person could. The absence of these two measures, affective response and bodily imprisonment, undermine French's argument that a corporation could act with moral intention. Absent the people who work on a daily basis to provide it with reified substance, the organization itself would cease to exist. This is not the case for human beings, who are considered moral agents.

Moral Rights & Moral Agency

There are many reasons why it is important to discern whether or not a corporation can qualify as a moral agent, or is simply comprised of moral agents. Primary among them is the concept of moral rights. Entities afforded status as moral beings are, by traditional practice, afforded rights concomitant to that status. It is important to distinguish between legal rights, which are codified and can be modified or removed, and moral rights, which arise naturally from the substance of an organism in the context of its environment (however, it is important to note that legal rights are often informed by the perceived moral rights at play, that is a moral agent is often afforded legal rights by their status as a moral agent.)

Moral agents, who then naturally become attributed moral rights, are protected in society in ways that recognize this special status - they are given deference and assigned *intrinsic value* (e.g. a value apart from its obvious utility or function). To be considered to have moral agency means to be granted both greater consideration and greater leeway in society. It's a hall pass to certain types of activities and certain privileges reserved for moral beings. This may include things like participating in the democratic process, receiving protection comparable to other moral agents, being allowed to amass various forms of power, and being recognized as having interests on par with other moral agents. Once an entity is widely held to have intrinsic value its worth is questioned less, often being less critically assessed and more taken for granted.

But how does one gain status as a moral agent? Philosopher Richard Watson describes it through his *Reciprocity Framework* as functioning in this way: **Rights** arise when a **moral agent** fulfills a **moral duty** as a part of a **moral milieu**.

- **Rights** are entitlements
- **Moral duties** are obligations to act in alignment with moral principles.
- **Moral agents** are entities in possession of self-consciousness, the capability of understanding moral principles, the freedom and capacity to act in relation to moral principles, possession of an understanding of the duty of principles, the intention to act in accordance with the moral principles.
- **Moral milieu** is comprised of moral agents engaging in complex processes of social interaction from which moral principles arise, e.g. the collective values assigned to things like to honesty, integrity, benevolence, courage, etc. by a society.

If corporations are aware of their moral duties, and fulfill these moral duties, then they would be afforded rights and protections on par with human beings. A corporation, would then, be socially qualified to do anything that a person could do. French believed the CID Structure was sufficient to grant corporations this status. Danley believed they were not, arguing that a corporation is not *aware* of anything as that ability requires consciousness. He was further concerned that assigning this status would create even greater imbalance than is already experienced:

> "...an indication of the consequences of admitting the corporation into the moral community have been foreshadowed by admission into the legal corpus as a person. That legacy is an odious one, marred by an environment within which the corporation has enjoyed nearly all the benefits associated with personhood while shouldering but few of the burdens or risks. Much the same would result from admission into the moral world."

In this argument Danley is highlighting a concerning trend in society toward affording greater and greater powers to corporations with fewer and fewer measures of accountability available to address the people operating the machinery. His concern is that granting any greater status to organizations than is already done in society would only continue to undermine the ability of society to hold individuals in corporations accountable given their increased ability to hide beyond the veil that would become corporate moral agency.

1. Rottschaefer, W. A., & Andrew, R. W. (1998). *The biology and psychology of moral agency*. Cambridge University Press.
2. French, P. A. (1977). "Corporate Moral Agency," in Vopat, M. C., & Tomhave, A. (Eds.). *Business Ethics: The Big Picture*. Broadview Press.
3. Danley, J. R. (1980). Corporate moral agency: The case for anthropological bigotry. *Bowling Green Studies in Applied Philosophy*, *2*, 140-149.
4. Watson, R. A. (1979). Self-consciousness and the rights of nonhuman animals and nature. *Environmental Ethics*, *1*(2), 99-129.

Business Interest in Political Processes

Businesses always work within the context of a society and all around the world these societies are governed by various types of political processes. In the United States, politicians in government are elected to serve in a representative democracy, meaning the people who are elected to government are done so to *represent* the interests of the people who elected them. It is incredibly important to understand that an elected representative is (should be) beholden to the interests of the people who elected them.

Government's role in society is, in general, to provide the legal and physical infrastructure, as well as other things necessary for the well-being of society. In this way the function of a politician is to make society better for its members at large. Because of this role, people in society are also subject to government and the laws, statutes, regulations, and policies they create. In the USA, if these political actions and processes are not favored by the citizens of the country, they will simply elect new government officials who they think can make society better than the current politicians.

Much like citizens of a country, businesses are subject to these laws and regulations. Most governments actually create many laws and regulations specifically for the purpose of commercial operations and business relationships; some to promote business practices and some to restrict. Some of the largest ways government can affect business include:

- Employment & Labor
- Tax Code
- Environmental Regulations
- Mergers and Acquisitions (anti-trust laws)
- Licensing and Permits

So, much like the citizens of the countries they occupy, businesses have a vested interest in who gets put into a position of political power. This interest has led businesses to become a *political participant*, meaning that they are engaged in the process of determining political outcomes.

Businesses influence the political process toward their interests through a number of different methods, but the starting point is to develop a *corporate political strategy*, which are intentional activities and steps taken toward the achievement of a political agenda. A corporate political strategy usually involves the use of an information strategy, a financial strategy, and a constituent strategy.[1]

An information strategy consists of using information as a means of influencing political processes, such as lobbyists do. A financial strategy involves things like campaign contributions to political candidates or using their economic power as job providers to exert pressure on local governments. A constituent strategy involves building a stakeholder base of power and aligning their interests with those of the business. In the case of consumers who have high brand loyalty, businesses can often use this constituent base to influence political officials on their behalf simply by telling consumers to write political officials in their area.

1. Hillman, A. J., & Hitt, M. A. (1999). Corporate political strategy formulation: A model of approach, participation, and strategy decisions. *Academy of management review*, *24*(4), 825-842.

Lobbying and Special Interest Groups

Businesses, and the special interest groups that support them, spend hundreds of millions of dollars to influence political processes in favor of their business interests. Sometimes these interests may coincide with the public good, but often times they do not. On the link presented here you will find a list of the Top Lobbying Spenders for the 2020 election cycle. Review the list to gain an understanding of the level of resources that companies and interest groups spend influencing the political process. While the dollar amount may represent a small percentage of operating budget to any given company, it far outweighs what the average American household can produce in terms of influencing the political processes.

PACS and SuperPACS

PACs, specifically SuperPACs, exist as a part of the corporate political strategy for most major corporations.

In the United States, a PAC refers to a Political Action Committee. A PAC is an organization that aggregates contributions to a political campaign, specifically a candidate running for political office. Emerging during the first half of the twentieth century, PAC's have a long-standing tradition in US politics of collecting and contributing political funds. PACs are governed by a series of rules and regulations that concern who can or cannot contribute, how much they can contribute, and what can be done with those contributions. SuperPACs have emerged following the 2010 Citizens United decision and are governed by a different set of rules that allow for unlimited contributions from unlimited donors.

For a better understanding of the difference between the two, review this article: Difference Between PAC and SuperPAC (http://www.differencebetween.net/miscellaneous/politics/difference-between-pac-and-super-pac/).

Because there are varying levels of coordination and transparency concerning funds that influence political office, different terms have been developed to refer to this funding.

- **Hard money:** money from a donor, who is disclosed publicly. The money is given directly to a candidate, and spent by candidates in pursuit of political office.
- **Soft money:** money from persons or groups given to a political cause, such as supporting a candidacy, but is spent without input from political party or political candidate.
- **Dark money:** The money that comes into non-profit organizations *anonymously* and is spent on behalf of, but not in coordination with, political candidates.

What do you think about PACs and SuperPACs and their funding sources? You need to be able to understand the difference between the two, but also the arguments for and against them as ethical instruments of political influence. Think all the way back to week one and consider our various ethical theories. Look at the consequences, the principles, and the virtues that are at stake in a situation like this while forming your opinion about what is or is not an ethical amount of political influence.

The Case of the Big Oil Spills

On April 20, 2010, an oil rig operated by BP©, and owned by Transocean, called Deepwater Horizon exploded. This caused what some have called the worst environmental disaster in U.S. history. The incident took lives of 11 employees, rig workers, and 17 more were severely injured.[1] For 87 straight days, oil and methane gas spewed from the uncapped wellhead a mile below the surface of the ocean. An estimated 130 million gallons of crude oil (4.2 million barrels) dumped into the Gulf of Mexico. It was the biggest oil spill ever in U.S. waters and remains one of the worst environmental disasters in world history; the damage to the ecosystem in the gulf has not recovered after a decade and may not even in the century to come.[2] Much of what has been discovered about what went wrong on Deepwater Horizon has been traced back to management practices of the company, including ignoring concerns and complaints placed by employees on-site.[1]

Every year the 5 largest publicly owned oil and gas corporations spend roughly $200 million lobbying political officials to block environmental policies that would hinder their ability to generate profit.[4] Reports have traced over 70% of the carbon pollution in recent decades to just a hundred companies, the majority of which are in the oil and gas industry.[3] All of which relate to the production and use of fossil fuels. This makes a certain amount of sense as both the harvesting of their product, as well its transport, produce a high amount of carbon pollution. However, it's the use of these products by consumers that has caused a significant amount of the pollution.

There's little to no room for doubt that a repeat of 20th century carbon pollution production will lead to a species level extinction event, very likely of humanity, but undoubtedly of many species.[2] With our planet being a finite space, and with knowledge that carbon pollution is toxic to organic life, there obviously must be a point at which the axiom the *solution to pollution is dilution* can no longer bear true. The oil and gas industry has known this for decades,[6] and consumers (at large) have been aware for at least dozen years or more about this reality. Yet 20th century behaviors persist, to the extent that some oil and gas giants have buried or delayed the development of technologies that could slow the adverse effects of carbon pollution.[5] Are these behaviors justified by the economic rationale of supply and demand? Are companies like Exxon and BP good for society as an economic boon? If the planet becomes uninhabitable, will it be the fault of humanity at large? of these corporations? of a few individuals atop these organizations?

1. Ethical Dilemma with the BP Oil Spill LawAspect, https://lawaspect.com/ethical-dilemma-bp-oil-spill/
2. How is Wildlife doing Now Ten Years After the Deepwater Horizon , National Geographic, https://www.nationalgeographic.com/animals/2020/04/how-is-wildlife-doing-now--ten-years-after-the-deepwater-horizon/
3. Just 100 companies responsible for 71% of global emissions , The Guardian, https://www.theguardian.com/sustainable-business/2017/jul/10/100-fossil-fuel-companies-investors-responsible-71-global-emissions-cdp-study-climate-change
4. Oil and Gas Giants Spend Millions Lobbying to Block Climate Change Policies .Forbes, https://www.forbes.com/sites/niallmccarthy/2019/03/25/oil-and-gas-giants-spend-millions-lobbying-to-block-climate-change-policies-infographic/?sh=22c8b9947c4f
5. Exxon Holds Back on Technology That Could Slow Climate Change , Bloomberg, https://www.bloomberg.com/news/features/2020-12-07/exxon-s-xom-carbon-capture-project-stalled-by-covid-19
6. Shell and Exxon's secret 1980s climate change warnings Links to an external site., the Guardian, https://www.theguardian.com/environment/climate-consensus-97-per-cent/2018/sep/19/shell-and-exxons-secret-1980s-climate-change-warnings

Week Five - Concepts & Terms

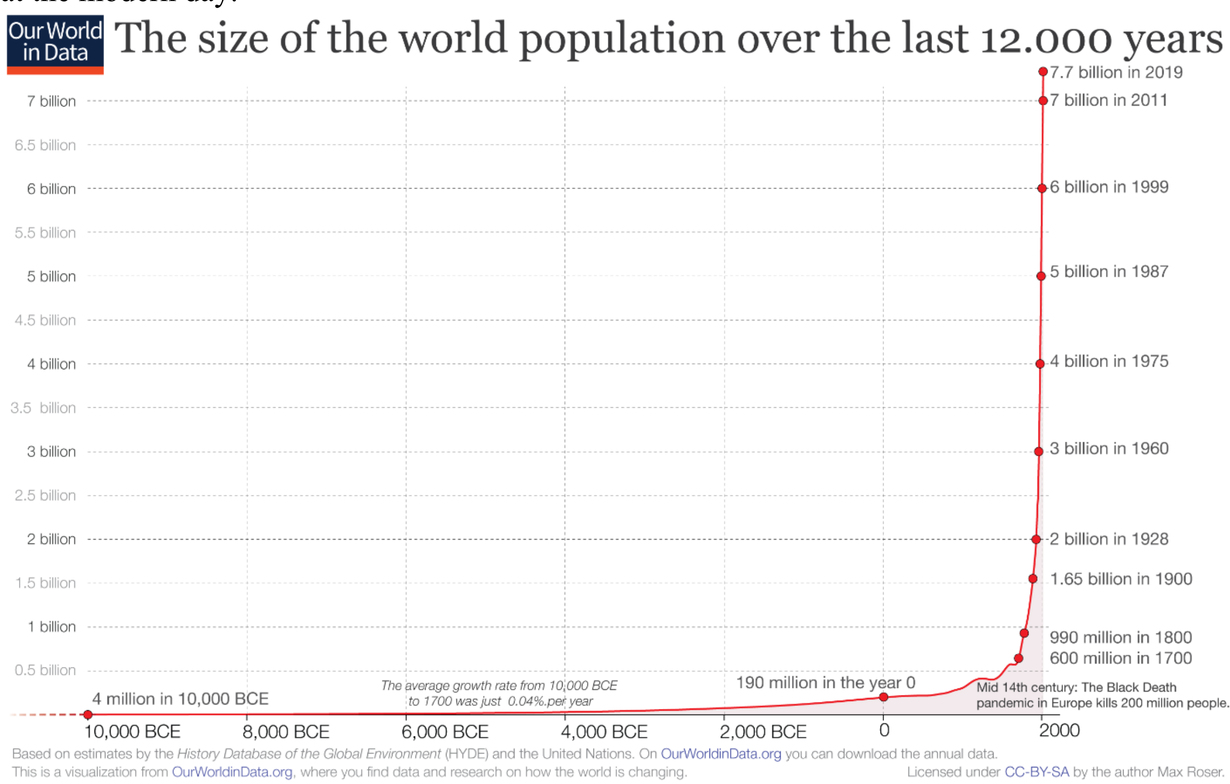
The below terms are the key concepts from your curricular content in week five of the course. This is not new information; it is pulled from the text and lectures. It is intended only as an extra study tool to help you prepare for quizzes as well as the completion of other assignments.

- **Constituent Strategy** - business seek to build a base of stakeholder power to leverage influence in the political process
- **Corporate Internal Decision (CID) Structure** - established procedures for accomplishing specific goals involving flows of organizational responsibility and recognition rules for validating decisions
- **Corporate Moral Agency** - the idea that corporations are a kind of entity that can make moral decisions and bear responsibility for its actions
- **Dark money** - money that comes into non-profit organizations anonymously and is spent on behalf of, but not in coordination with, political candidates
- **Financial Strategy** - businesses seek to influence the political process by providing monetary support to candidate's campaigns for election
- **Hard Money** - money from a donor, who is disclosed publicly. The money is given directly to a candidate, and spent by candidates in pursuit of political office
- **Information Strategy** - businesses seek to provide government policymakers with information to influence their actions.
- **Intrinsic Value** - value independent of any obvious utility or function; associated with the nature of the thing as inseparable from it.
- **Lobbying** - engaging in activities aimed at influencing public officials, especially legislators, and the policies they enact.
- **Machine Model** - a model positing that corporations be treated as a product of human design and intention, not entities with their own agency and interests.
- **Political Action Committee (PAC)** - a committee set up by a corporation, labor union, or interest group that raises and spends campaign money from voluntary donations.
- **Political Participant** - a person or organization taking part in the political processes of a country.
- **Reciprocity Framework** - claims that rights arise when a moral agent fulfills a moral duty as a part of a moral milieu, and can be lost when a moral agent fails to fulfill said duties.
- **Reification** - giving an abstract concept a name and then treating it as though it were a concrete, tangible object.
- **Super PAC** - a political-action committee that is allowed to raise and spend unlimited amounts of money from corporations, unions, individuals and associations. The most important difference between a super PAC and traditional candidate PAC is in who can contribute, and in how much they can give.
- **Soft Money** - money from persons or groups given to a political cause, such as supporting a candidacy, but is spent without input from political party or political candidate.
- **Type I Responsibility** - serving as the cause of an event.
- **Type II Responsibility** - being accountable as the cause of an event.

Economic Perspectives on Environmental Resources

You were introduced in week two to the rise of industrial capitalism during the 17th and 18th century. During this time business changed as a result of industrialization and advances in agriculture. As production of goods became easier, people labored less in the fields, lived longer and died less often, and a cycle of production and consumption exploded along with the human population.

This graph shows how the increase in human population coincides with the advent of the industrial revolution. You will see how for thousands of years there was moderate growth, and then starting in the last few hundred years you'll see what looks like exponential growth stopping at the modern day.



While people had been producing and consuming goods for over 12,000 years, there was little to no problem concerning sustainability of this practice until recent centuries. Whatever things were consumed as products of the earth, were replenished by natural processes in an ongoing cycle.

However, all systems have limits. The ecological biosphere represents a living system, subject to the general systems theory you learned about earlier. When more is extracted than is added, the system starts to breakdown. This limit on the ecological biosphere is called the *carrying capacity*. It refers to the amount of human life the earth is able to sustain given the limits of the ecological biosphere. The carrying capacity of the earth is influenced by many things and should not be considered a fixed number. If we had not developed new agricultural sciences in the 19th and 20th century we would have already far passed earth's carry capacity. Changes in human behavior both tax and extend the carrying capacity of the earth. The fluidity of this line brings us to a fork in the road on two economic models called cowboy economics and spaceship economics.[2]

Cowboy economics is named after consumption and production practices of the 19th and 20th century American pioneers. In the 1800's the United States was a young nation, hell-bent on westward expansion. The general practice of early US citizens was to move to a place and use whatever resources could be extracted, and when they were used up, to move to a new place. An example is strip mining, where a company would move in, mine all the resources they could, then move to a new location to mine more resources. This is the premise of cowboy economics, the world is a vast expanse of resources and an ever-beckoning frontier. When a resource is depleted in one place, you simply find it (or a comparable resource) somewhere else. Another example can be found in the practice of fracking. When it appeared that US access to oil was running out in the late 70s, President Jimmy Carter put out a call for moderation in energy consumption.[3] However, the principles of cowboy economics prevailed and instead of lessening the dependence on oil, industry innovated new ways to access previously inaccessible deposits of oil in shale rock: hydraulic fracturing.

Contrary to that view is spaceship economics, named after consumption and production practices you will find on a craft in orbit around our planet. When you are traveling in a spaceship, your resources are limited. What you brought with you, is what you have to meet your needs. If you run out of food on a spacecraft, you starve, if you run out of fuel, you float aimlessly in whatever direction you were last headed. This limitation on resources means that you need to be economically conservative with what you have, keeping in mind that your resources are finite. An example of this can be seen in the movie, *The Martian*, in which Matt Damon's character is stranded on Mars without hope of rescue in the foreseeable future. The only resources he has are what was brought with him. Damon is forced to use his own bodily waste to fertilize a few planted potatoes to sustain him until help can arrive. This view treats the planet earth like Damon's habitat module on Mars, without the ability to give resources new life, potentially indefinitely, then life on earth will cease to exist.

There are people who still believe that we should operate a cowboy economy. These people believe that we should use whatever resources are at our disposal and when they are gone, we will find more of them or substitutes for them, even if that means venturing to far off distant worlds. These people believe this practice of resource consumption is what will fuel human progress, innovation, and abilities. Others believe that we must transition to a spaceship economy and begin to look at the world as our spaceship (it is after all, carrying us through space). These people believe that we have a responsibility to use only resources that can be renewed. This responsibility is borne out of a sense of duty and obligation to future generations of humanity. It is echoed in the sentiment of Adam Smith who said "the most absurd of all suppositions, is the supposition that every successive generation of [people] have not an equal right to the earth."[4] Spaceship economists believe that not only do resources belong to all of us, but also to future generations as well, and that we have a responsibility to steward these resources sustainably.

While these two economic models are not 100% mutually exclusive, they do not tend to exist well together. In an industry where one company wants to practice spaceship principles, they may initially be at a disadvantage against a company who wants to practice cowboy principles. There are initial costs, both in time and fiscal capital, associated with sustainability. While these investments will pay off in the long-run, it's possible that businesses like this may be put out of operation before they can see those returns. Consider life as a beverage company. Company CE practices cowboy economics and Company SE practices spaceship economics concerning water use for their beverages. Company CE extracts large amounts of water from the surrounding water tables. Without concerns about managing the water sustainably they extract great volumes at a cheaper rate than competitors. They are able to create their product at a lower price. Company SE practices water sustainability, not extracting more than the water table can resupply in any given year. This means they produce less at a more expensive price.

In the long run, Company SE will always have water to produce their beverages, because they are managing their resource in a sustainable way. Company CE will eventually use up all their water, say over a few years, and have to incur costs of relocating. However, in the short term Company SE is losing the price competition and may end up closing their doors before their company can see the return on their long-term investments. It is for this reason that decision about which economic principles to employ must be uniform across industries if one model is to prevail over another. It is tempting to think of potable water as limitless resource because the water cycle replenishes water tables, but even this system has a carrying capacity, at which point the earth will run out of potable water.

In a spaceship economy, businesses must operate under the principles of ecologically sustainable development, meaning development that occurs to meet the needs of the current population must do so without compromising the ability of future generation to meet their own needs. Businesses that do operate in this manner are rightly called ecologically sustainable organizations (ESO).

What these principles boil down to is a perspective on what the environment, and its natural resources, are. Is the ecological biosphere something that exists for our benefit; something we have the right to consume without consideration to its persistence and viability? Or is the ecological biosphere something that exists with its own right to persistence, equal to ours, and we should respect its persistence as we also respect our own persistence as a species?

1. Graph of Human Population since 10,000 BCE Retrieved from www.ourworldindata.org on March 12, 2020
2. Gellers, J. C. (2010). 'Cowboy Economics' versus' Spaceship Ecology': Constructing a Sustainable Environmental Ethic. *Available at SSRN 1695814*.
3. Carter, J. (1977) Moral Equivalent of War Retrieved from https://en.wikipedia.org/wiki/Moral_Equivalent_of_War_speech on 5/12/21
4. Smith, A. (2010). *The Wealth of Nations: An inquiry into the nature and causes of the Wealth of Nations*. Harriman House Limited.

A Sustainability Ethic

When we talk about the environment and ethics its often a question of rights: who has a right to do what and when, where, and to what extent? It's a question of the rights we have (or do not have) to take from (or negatively contribute to) a system that sustains all life on earth.

One of the founders of 20th century environmental ethics was a man named Aldo Leopold. Leopold believed that the environment (what he called the "biotic community") had a right to exist and persist that was not only on equal footing with humanity's, but that humanity's ability to exist and persist was inextricably linked with that of the biotic community. Leopold's maxim for environmental ethics is best summed up in this statement, "***A thing is right when it tends to preserve the integrity, stability, and beauty of the biotic community.***"

Leopold was not against industrial development and economic practices. He had no opposition to taking resources from the natural world to be used for commercial purposes. He recognized the role and importance of agriculture in human societies and was himself a hunter and a meat eater. He owned land, felled trees and used their timber for construction or fuel as needed. Each organism's right to exist did not mean that it could not be harvested or used by other organisms in an ecosystem. This is after all how ecosystems work, through give and take of the participants comprising it. However, to Leopold, when the actions of humanity destabilize or bring harm to the environment as an ecological system, and impair its "integrity, stability, or beauty" then we have gone too far. Leopold's ethic is oriented toward a systems perspective of the environment and considers humanity to be a mere participant, not a priority participant.

This ethic has laid the groundwork for 21st century sustainability management principles. Review this article by Dr. Stuart Hart, which lays out *three distinct stages* for sustainability management in the modern day business practices: Beyond Greening: Strategies for a Sustainable Word (https://hbr.org/1997/01/beyond-greening-strategies-for-a-sustainable-world)

1. Hart, S. L. (1997). Beyond greening: strategies for a sustainable world *Harvard business review*, *75*(1), 66-77.
2. Leopold, A. (1989). *A Sand County almanac, and sketches here and there*. Oxford University Press, USA.

The Case of the Reformed Plunderer

Adam Smith was not an environmentalist, but a moral philosopher. His approach to the issue of land use came through that lens. It created a cognizance of future generation's ability to access the land through a lens of fairness and equity. He stated it was "the most absurd of all suppositions, the supposition that every successive generation of [people] have not an equal right to the earth." Smith saw land as a place of bountiful produce and wanted it to continue to be so for each generation following him. He believed it should *belong* to those who could make the most use of it, not simply with those who had the power to acquire it (e.g. kings and lords). Unfortunately, many proprietors of land and its resources made use of the land for themselves without consideration to the ability of future generations to continue to do so. These are people who plundered the earth for short-term economic prosperity.

Ray C. Anderson (July 28, 1934 – August 8, 2011) was an entrepreneur, he was a millionaire, he was the founder and chairman of Interface Inc., one of the world's largest manufacturers of modular carpet for commercial and residential applications, as well as a leading producer of commercial broadloom and commercial fabrics. Ray Anderson was also a father, a Georgia Tech alum, and a reformed plunderer. Following his death in 2011, he was referred to as America's Greenest CEO. Read this article explaining more: A Recovering Plunderer. You can find out more about the journey that Ray led Interface carpet on here: Our Sustainability Journey.

After reviewing all of this, take time to reflect over the following questions:

- Do we have a moral responsibility to future generations to live differently?
- If no, why not? If yes, what problems do you see in assuming such a responsibility?

1. A Recovering Plunder, Patheos.com, retrieved 5/24/22 from https://www.patheos.com/blogs/karenspearszacharias/2011/08/30/a-recovering-plunderer/
2. Our Sustainability Journey, Interface, Inc. retrieved 5/24/22 from https://www.interface.com/US/en-US/sustainability/our-journey-en_US
3. Smith, A. (2010). *The Wealth of Nations: An inquiry into the nature and causes of the Wealth of Nations*. Harriman House Limited.

Our Better Nature (podcast)

The last two weeks have focused on employees and the organizations they occupy. To connect those ethical issues to the topic of business and the environment you are to listen to the podcast here from Hidden Brain. The relationship between people and the natural environment is something businesses must pay attention to managing. In part because we need the environment to survive, but also because of the positive effect that nature has on people. Incorporating environmental principles, botanical elements, and "green spaces" into our businesses and organizations creates happier and healthier people - who in turn become more productive employees. The podcast here walks you through this win-win for business and environment.

https://www.npr.org/2018/09/10/646413667/our-better-nature-how-the-great-outdoors-can-improve-your-life

At the beginning of the podcast psychological well-being is discussed and then toward the end physical health and well-being. Think about this information from the vantage point of the well-being of a workforce.

Transcript available at Our Better Nature

Week Six - Concepts & Terms

The below terms are the key concepts from your curricular content in the sixth week of the course. This is not new information; it is pulled from the text and lectures. It is intended only as an extra study tool to help you prepare for quizzes as well as the completion of other assignments. .

- **Biotic Community** - all the different species of organisms that live together in an ecosystem; plants, animals, fungi, and microbes
- **Carrying Capacity** - largest number of individuals of a population that a environment can support at a given time
- **Cowboy Economics** - an economy that behaves as if natural resources are infinite in supply and nature can absorb all wastes; resources are used without concern of or consideration for depletion
- **Ecosystem** - a biological community of interacting organisms and their physical environment
- **Ecologically Sustainable Development** - development that meets the needs of the present without compromising the ability of future generations to meet their own needs.
- **Ecologically Sustainable Organizations (ESO)** - organizations that operate on the principle of sustainable development.
- **Leopold's Maxim** - "A thing is right when it tends to preserve the integrity, stability, and beauty of the biotic community. It is wrong when it tends otherwise."
- **Market Economy** - Hart's term for the developed world, the affluent societies consuming about 75% of the world's energy
- **Nature's Economy** - consists of the natural systems and resources that support the market and the survival economies.
- **Spaceship Economics** - an economic perspective that views resources as finite and places an imperative on sustainable use or (nearly) infinite reuse of materials necessary to support life.
- **Survival Economy** - an economy in which most consumers are subsistence farmers
- **Three Stages of Sustainable Development** - Pollution Prevention, Product Stewardship, Clean Technology

Begin your week with a brief review of this paper, International Business Ethics, in which noted scholar of business ethics, Dr. Richard T. De George outlines the problems, consistencies, necessities and strategies for discovering and maintaining a form of international business ethics. The paper includes a brief history of economic development, international relations, and key legislative measures and asserts because "ethics is universal and the same for all, American companies should obey the same ethical rules abroad that they do at home. They should respect the rights of workers, should not engage in bribery, should not undermine the local culture, or impose American norms -- both of which are considered a form of cultural imperialism and unethical." You will see referenced in the paper the Foreign Corrupt Practices Act, the World Bank, the International Monetary Fund, and the Sullivan Principles, which you can read more about via the resource information below.

Source:

- International Business Ethics (Links to an external site.), Business Ethics Quarterly, retrieved on 5/24/22 from https://www.jstor.org/stable/pdf/3857554.pdf
- Foreign Corrupt Practices Act (Links to an external site.), United States Department of Justice, retrieved on 5/24/222 from https://www.justice.gov/criminal-fraud/foreign-corrupt-practices-act
- The Sullivan Principles (Links to an external site.), Boston University, retrieved on 5/24/22 from https://www.bu.edu/trustees/boardoftrustees/committees/acsri/principles/
- The World Bank (Links to an external site.), Britannica.com, retrieved on 5/24/22 from https://www.britannica.com/topic/World-Bank
- The International Monetary Fund (Links to an external site.), Investopedia.com, retrieved on 5/24/22 from https://www.investopedia.com/terms/i/imf.asp

Economic Freedom Around the Globe

You reviewed the concept of economic freedom earlier in the course with the ideas of positive (freedom to) and negative (freedom from) types of liberty. In this module we'll review how this plays out in different countries around the globe. Different countries and systems prioritize the *freedom from* and the *freedom to* in different ways. The Index of Economic Freedom (IEF) is a metric concerned with mostly negative liberty in economic systems, e.g., the absence of government regulations on economic actions. Review the index here to see where different countries fall on this spectrum and reflect over what you know about those countries and quality of life you believe exist there:

- Index of Economic Freedom

After poking around the IEF, head over to the UNs Human Development Index (HDI), which is considered one of the top metrics assessing quality of life in a given country. The HDI measures things like life expectancy at birth and access to education as well as gross national income. One thing you will see is that countries up and down the IEF have diverse scores on the HDI.

- UN Human Development Index

Consider the larger differences of Japan and the US on the IEF and their much closer scores on the HDI. The issues of economic freedom are complex and multivariate, and factors such as culture play a big role. What these data help us to understand is that one system is not inherently superior to another system, as much as one system is a better fit for people at a given time and in a certain context. Some have argued that an economic system able to generate great wealth, but unable to feed and care for the populace which supports it, could hardly be considered an ethical economic system. This argument applies to any economic system where noxious inequality exists without access to any meaningful mechanism for the disenfranchised to address change. Each has its downfalls that it must deal with, and to the extent it fails to meet the needs of its population sufficiently, should be modified or addressed.

The span of freedoms in marketplaces around the globe represents distinctive sociopolitical states, which are used in some form by all societies. On one extreme end of the spectrum is the idea *neoliberalism,* in which the government's role in market place is minimal. Neoliberalism believes that governments only interactions with the marketplace should be to protect the rights of the participants to operate with as much negative liberty as possible. On the other extreme end of the spectrum are *central-state-control* markets, in which the government directly intervenes with business and companies become almost a branch of the government themselves. Here the governments take actions such as setting prices, quotas for employment, and make decisions about product development and distribution.

Most countries will operate somewhere in between these two extremes in various forms of a *democratic free market system*. In such systems, participants privately own the means of production and various economic assets such as goods and services, while being subject to government regulations intended to increase fairness and equitability of the participants. In these systems, when citizens perceive the market as acting against the interest of society, government serves as a tool of the general population to address whatever actions are perceived as harmful.

1. Index of Economic Freedom: Heritage Foundation, retrieved 5/24/22 from https://www.heritage.org/index/
2. UN Human Development Index: United Nations, retrieved 5/24/22 from https://hdr.undp.org/en/data
3. De George, R. T. (2005, February). A history of business ethics. In Paper delivered at the third biennial global business ethics conference. Santa Clara, CA: Markkula Center for Applied Ethics.
4. Ganti, T. (2014). Neoliberalism. Annual Review of Anthropology, 43, 89-104.
5. Yeo, Y. (2022). Varieties of state regulation: How China regulates its socialist market economy. In Varieties of State Regulation. Harvard University Asia Center.

Operating in Global Markets

Businesses from various nations, political states, and economic frameworks interact with each other on a regular basis. A company in India, with relatively low economic freedom, may operate in Ireland or with an Irish company, where there is relatively high economic freedom. This interplay of businesses across national boundaries is a tenet of globalization, i.e. the process by which businesses or other organizations develop international influence or start operating on an international scale. For a business to engage on the global stage it must, in some capacity, engage in sourcing materials from international locations, producing materials in countries other than its own, or selling materials on foreign markets. This formula of source, make, sell, effects most businesses today. Because of variances in wage labor between countries, there are specific countries that businesses rely on for the production of many goods.

In general, a US company can open a factory in China, ship raw materials there, have them turned into a product, and then ship them back to the US to be sold domestically, all more cheaply than they could if the labor were being done in the United States. Much of this relates to the salary necessary for an individual in the United States to make a *living wage* being much higher than a living wage in many parts of China.

Another reason why this source, make, sell paradigm occurs is because of the access or abundance of certain natural elements in other countries. The majority of the minerals used to create electronics can be found in great abundance in the Democratic Republic of the Congo but are almost nonexistent in other countries. The same will hold true for products such as lumber, which the US and Sweden have in far greater quantities than Yemen or Saudi Arabia.

This paradigm of globalization does come with some ethical concerns. One of which is something called the *race to the bottom*. This is a dynamic in which businesses are financially incentivized to find the country with the least amount of regulation, the poorest and most desperate workforce, because this would save costs for the business. Consider, a shoe company opens up a factory in Thailand because the economic conditions are favorable to generating a profit for the company. The local regulations and the workforce only require the equivalent of $1.54 a day in order to provide for their needs. This may buy basic food, shelter, and clothing for the employees. However, after five years of operation the workforce has grown, economic prosperity in the region has caused inflation as happens naturally in free markets. Now the workforce is unwilling to work for less than $2.15 a day, which is a roughly 40% increase in salary. The shoe company can either agree to pay the higher wages or, as often happens, consider moving their operations to a location with less demanding workforce. Perhaps down the road in Bangladesh they have found a community where people are willing to work for $1.40 a day. Thus, some businesses are constantly racing to the bottom of the pyramid of global inequality to take advantage of the disparities that exist there.

Another concern about operating in the global markets is the varying degrees of expectation and use of bribery, which is the unfair giving of money or favors to influence the judgment or conduct of a person in a position of trust. While almost all societies will pay lip service to banning bribery as a form of public practice, the regulation of bribery in international markets experiences a much greater degree of variance.

1. Rudra, N. (2008). Globalization and the Race to the Bottom in Developing Countries. *Cambridge Books*.
2. Kim, DaeSoo. "Process chain: A new paradigm of collaborative commerce and synchronized supply chain." *Business Horizons* 49.5 (2006): 359-367.

The Case of Banana Terrorism in Colombia

In 2007 Chiquita Brands paid a 25 million dollar fine, resolving a lengthy probe by the Justice Department into the company's operations in Colombia. They plead guilty to one count of "Engaging in Transactions with a Specially-Designated Global Terrorist."

Chiquita's problems began in the late 90s with a series of payments to the United Self-Defense Forces of Colombia (AUC), a far-right paramilitary and drug trafficking group who extorted money from the company in exchange for not attacking its facilities. In this type of extortion scheme, these are often framed as 'security payments' whereby the business is said to be provided protection from various elements by the group it is paying. In reality the protection is against violent actions from the group that is extorting the business. The monies go toward funding the operations of the extorting group, usually through the acquisition of weaponry, bribes, etc. to advance their interests and increase their power. The AUC made it clear to Chiquita the safety of their employees and facilities were at risk if these payments were not made. The AUC was known to be directly responsible for at least one massacre in 1997, which claimed the lives of 49 people, so Chiquita new the threat to be sincere. The company, which had business operations in some form or fashion in Colombia for roughly a hundred years was not ignorant of this type of situation. In a 1997 handwritten note, one Chiquita executive said such payments are the "cost of doing business in Colombia." He wrote that they "Need to keep this very confidential — people can get killed."

Over the course of 10 years Chiquita Brands paid a sum of $1.7 million to the AUC. Chiquita claims these payments were necessary to keep its facilities open and operating and to keep its employees safe from harm. The funds from Chiquita Brands, as well as other companies such as Hyundai Motor Corporation and Fresh Del Monte Produce, allowed the AUC to grow in power and conduct prolonged guerilla warfare in various regions of Colombia. Over the course of the time Chiquita was making these payments the AUC is believed to be responsible for 393 deaths of Colombian citizens.

Following the September 11, 2001 terrorist attacks in the United States the US government stepped up its efforts to combat terrorist organizations globally. Part of this effort involved labeling groups and putting restrictions on who could interact with them and how. The AUC was one of the groups labeled a terrorist organization by the US government. In 2003, Chiquita was informed that, because of this, their payments to the AUC were now illegal under these new terrorism laws. Chiquita's lawyers advised the company to cease making the payments, however the company decided to continue making further payments. Of the $1.7 million in total paid, $825,000 came after the payments were classified as illegal. The Chiquita executives would later claim that stopping the payments would pose too great a risk to the lives of their employees. While other options, such as withdrawing operations from Colombia, were considered, these were ultimately rejected.

In 2014, in response to a lawsuit brought by thousands of Colombian citizens who sought to hold Chiquita accountable for funding this group, the 11th United State Court of Appeals ruled that Chiquita Brands could not be held responsible for these actions by the citizens of Colombia. Rather than on the merits of the case itself, Chiquita's favorable ruling came on a technicality of law. The judge determined that US law did not provide foreign citizens the legal ground to hold the US company accountable as a tort claim, which is the grounds by which the plaintiff's (the Colombians) had sought to hold the company accountable.

“The principle upon which this lawsuit is brought,” said the plaintiffs attorney, “is that when you put money into the hands of terrorists, when you put guns into the hands of terrorists, then you are legally responsible for the atrocities, the murders and the tortures that those terrorists commit.” Still another of the plaintiff’s attorneys claimed, “A company that pays a terrorist organization that kills thousands of people should get the capital punishment of civil liability and be put out of business by punitive damages."

Throughout this process Chiquita continually asserted it was blackmailed into paying the AUC, and insisted the lawsuits should be dismissed. "Chiquita was extorted in Colombia and company officials believed that the payments were necessary to prevent violent retaliation against employees," said company spokesman. To further explain itself he stated that “Chiquita and its employees were victims and that the actions taken by the company were always motivated to protect the lives of our employees and their families... Our company had been forced to make protection payments to safeguard our workforce. It is absolutely untrue for anyone to suggest that these payments were made for any other purpose.”

Yet the lawsuit claimed that Chiquita’s involvement went beyond mere financial transactions and that Chiquita’s assistance to the AUC amounted to tacit participation in drug trafficking. Colombian prosecutors claim the AUC was using Chiquita vessels bound for Europe to smuggle narcotics, particularly cocaine, and that the paramilitary group had “uncontrolled access to [Chiquita’s] port facilities and ships.” While Chiquita has not admitted to this allegation, high ranking members of the AUC have provided testimony concerning the company’s willingness to work with the paramilitary group in exchange for being left free from its violent actions.

1. Chiquita admits to paying Colombia terrorists, NBC News, https://www.nbcnews.com/id/wbna17615143
2. Chiquita made a killing from Colombia’s civil war, Pulitzer Center, https://pulitzercenter.org/stories/chiquita-made-killing-colombias-civil-war
3. Chiquita sued over Colombian paramilitary payments , News Tribune, https://www.newstribune.com/news/2011/may/31/chiquita-sued-over-colombian-paramilitary-payments/
4. “Chiquita Brands International Pleads Guilty to Making Payments to a Designated Terrorist Organization and Agrees to Pay $25 Million Fine,” U.S. Department of Justice Press Release, https://www.justice.gov/archive/opa/pr/2007/March/07_nsd_161.html
5. Para-Business Gone Bananas: Chiquita Brands in Colombia, : Council on Hemispheric Affairs, https://www.coha.org/para-business-gone-bananas-chiquita-brands-in-colombia/
6. Chiquita accused of funding Colombia terrorists , CBS News, https://www.cbsnews.com/news/chiquita-accused-of-funding-colombia-terrorists/
7. US appeals court says Colombians cannot sue Chiquita , BBC News, https://www.bbc.com/news/world-latin-america-28469357

Politics, Risk, and Corruption in International Markets (podcast)

The below podcast covers the fallout of risk in international markets, specifically when it concerns the actions of autocratic states such as Russia and China. It highlights the economic concerns that come from the interactions of state-control-systems and democratic free market systems.

As you listen, try and evaluate whether the risk comes from a) the differences creating incompatibility between the two systems or b) the economic strength of one system over the other. Cultural values are at play, and noxious elements may exist in both, but what are the qualities of one system over the other than promote ethical business environments?

The full URL for the podcast is here - https://www.carnegiecouncil.org/media/podcast/20220506-companies-china-next-russia-perth-tolle.

Access to the transcripts and the podcast are available at Carnegie Council Podcasts

Week Seven - Concepts & Terms

The below terms are the key concepts from your curricular content in the seventh week of the course. This is not new information; it is pulled from the text and lectures. It is intended only as an extra study tool to help you prepare for quizzes as well as the completion of other assignments.

- **Access Money** - According to Ang, a form of corruption in which favors or funds are afforded to powerful officials by a business in exchange for an increase of opportunities to earn profit.
- **Bribery** - the practice of offering something (usually money) in order to gain an illicit advantage.
- **Central State Control** - A system where economic power is concentrated in the hands of government officials and political authorities.
- **Corruption** - dishonest or fraudulent conduct by those in power, typically involving an abuse of the trust their position carries with it.
- **Cultural Imperialism** - The deliberate imposition of one's own cultural values on another culture.
- **Democratic Free Market Systems** - Systems where goods, services, and the means of production are privately owned, while subject to government regulations meant to address imbalances occurring in a completely unregulated market.
- **Foreign Corrupt Practices Act** - U.S. law regulating behavior regarding the conduct of international business; prohibiting the taking of bribes and other unethical actions.
- **Globalization** - the process by which businesses or other organizations develop international influence or start operating on an international scale.
- **Grand Theft** - According to Ang, a form of corruption including activities such as embezzlement of funds from an organization to an individual.
- **Multinational Corporation (MNC)** - A large business organization operating in a large number of different national economies with a high degree of market penetration.
- **Neoliberalism** - A strategy for economic development that calls for free markets through bare minimum of government intervention in the economy.
- **Petty Theft** - According to Ang, a form of corruption including activities such as extortion by persons in places of authority.
- **Race to the Bottom** - a dynamic in which states compete to attract business by lowering taxes and regulations, often to workers' detriment. Business will leave countries in which they are operating to move to a cheaper labor market.
- **Source, Make, Sell** - the paradigm of globalization in which products and services are sourced from, produced in, or sold to foreign markets.
- **Speed Money** - According to Ang, a form of corruption in which small amounts of money (bribes) are paid to low-level officials to decrease bureaucratic resistance in government.
- **Sullivan Principles** - A 1977 code of conduct that required multinational corporations in South Africa to do business in a nondiscriminatory way.

Moral Imagination

One skill that business professional will come to rely on more and more as the world complexifies is the ability to engage in moral imagination, this the ability of individuals to create or use ideas, images, and metaphors not derived from moral principles or immediate observation to discern moral truths or to develop moral responses. In other words, when an individual appears to be between a rock and a hard place, and the past methods of ethical reasoning seem insufficient. How adept will they be at finding new moral ways to resolve ethical dillemas. The below fable provides an example of this:

The Money Lender and the Tale of Two Pebbles

Many hundreds of years ago in a small Italian town, a Merchant had the misfortune of owing a large sum of money to the Moneylender. The sum was so large, that if unpaid, it would require the Merchant to be jailed until it could be repaid, which of course he could not do from jail.

The Moneylender, who was old and ugly, fancied the merchant's beautiful daughter so he proposed a bargain.

He said he would forgo the merchant's debt if he could marry the daughter. Both the merchant and his daughter were horrified by the proposal, especially because of the moneylenders reputation for being cruel and crass with most people. They feared the daughter would be mistreated and unhappy for the rest of her life.

The moneylender told them that he would put a black pebble and a white pebble into an empty bag. The girl would then have to pick one pebble from the bag. If she picked the black pebble, she would become the moneylender's wife and her father's debt would be forgiven.

If she picked the white pebble she need not marry him and her father's debt would still be forgiven. But if she refused to pick a pebble, her father would be thrown into jail. They were standing on a pebble strewn path in the merchant's garden. As they talked, the moneylender bent over to pick up two pebbles. As he picked them up, the sharp-eyed girl noticed that he had picked up two black pebbles and put them into the bag. He then asked the girl to pick her pebble from the bag.

What would you have done if you were the girl?

Careful analysis would produce three possibilities:

1. The girl should refuse to take a pebble.
2. The girl should show that there were two black pebbles in the bag and expose the moneylender as a cheat.
3. The girl should pick a black pebble and sacrifice herself in order to save her father from his debt and imprisonment.

All of these three options have obvious flaws and downsides as:

1. Refusing to take the pebble would land her father in jail.
2. Exposing the moneylender's scheme would get her out of marrying him, but not compel him to forgive the debt.
3. Going along with the scheme would get her father out of debt but force her into an enslaved marriage.

To better understanding the importance of moral imagination, consider what possible action she could take that would allow an ethical outcome that is beneficial to those in this situation who are seen to be acting ethically.

The rest of the story…

The girl put her hand into the moneybag and drew out a pebble. Without looking at it, she fumbled and let it fall onto the pebble-strewn path where it immediately became lost among all the other pebbles.

“Oh, how clumsy of me,” she said. “But never mind, if you look into the bag for the one that is left, you will be able to tell which pebble I picked.”

Since the remaining pebble is black, it must be assumed that she had picked the white one.

The moneylender has nothing to gain by admitting his dishonesty, because it will not compel the girl to marry him or get him out of the arrangement he made to forgive the debt.

The girl changed what seemed an impossible situation into an advantageous one by envisioning the full range of possibilities in a particular situation in order to solve an ethical challenge.

An Increase in Ethical Foresight

Moral imagination is a wonderful skill to have, but it would be altogether better to avoid such situations if possible. This is the thought behind Robert Greenleaf's advocacy for foresight, especially when it came to leaders in our organizations.

Foresight is defined and explained as a “better than average guess about *what* is going to happen *when* in the future." For Greenleaf this was a tenet of leadership and was imperative because all leader’s must be people who are “better than most at pointing the direction” in which others should go. Leaders are those who can identify goals for the group, strategize how they can be attained, and then is successful in articulating this to others in a way that enlists their support. For truly effective leaders, this communication “excites the imagination and challenges people to work for something they do not yet know how to do, something they can be proud of as they move toward it.”

Foresight for leaders is more than the ability to utilize predictive capacities, analyze trend data, and foster intuitive insight to estimate future probabilities; it is not *just* the skill of predicting the shape of future events as it were. Rather it is a central ethic, a duty, which if neglected, will cause moral blame to be assigned to the leader.

“The failure (or refusal) of a leader to foresee may be viewed as an *ethical* failure, because a serious ethical compromise today… is sometimes the result of a failure to make the effort at an earlier date to foresee today’s events and take the right action when there was freedom for initiative to act.”

The practice of prescience in leadership is a tool that should be used to place one's business in a position in which the terminal aims and interests of your organization can be met without moral conflict. Foresight is a call to avoid metaphorical *slippery slopes* and potential actions that jeopardize one's future interests. Greenleaf goes so far as to assert this distinctive practice of foresight for requires a duality of consciousness. It means to be in the moment and of the moment, while also being sufficiently disconnected in such a way that the *now* moment is seen as a small part of the *present* moment – the way in which the moment comprises an element of a larger zeitgeist. Foresight requires an increase in moral awareness that is bimodal, with attention to now and the probable futures that will be birthed from now.

- Greenleaf, R. K. (2002). *Servant leadership: A journey into the nature of legitimate power and greatness*. Paulist Press.

An Increase in Humane Orientation

Humane orientation is understood as the "the degree to which an organization or society encourages and rewards individuals for being fair, altruistic, friendly, generous, caring, and kind to others," and it serves as an ethical safeguard to dehumanizing factors present in a complex information economy. With the advent of big data, the trend in society is to more and more view people through the lens of data analytics. In other words, in an information economy people are often broken down into a series of conclusions derived from (mostly) public acts. Their social media posts, their Internet search histories, their consumer purchases, their geographic location, etc.

Big data can be misleading in providing insight into people's behaviors. Simply because data analysis can help to recognize trends and probabilities in human behaviors, doesn't mean that people should be treated or perceived as the sum of this analysis. When individuals believe themselves to have been marginalized or discounted in this way it can lead to neurosis, diffidence, and feelings of insignificance that detract from things like organizational citizenship behavior -- thus seriously harming the individual and the productivity of the organization.

However, when business leaders emphasize the values of individual people, while both rewarding and promoting prosocial behavior within their organization, it contributes to a strong humane orientation in which people are valued as humans and not commodities, employees, or in any other way mere means to an end. This requires conscious efforts on the part of business leaders as technological developments, market complexities, and industry trends are forces pushing in the opposite direction.

1. Kabasakal, H., and Bodur, M. (2004). *Humane orientation in societies, organizations, and leader attributes*. In R. J. House, P. J. Hanges, M. Javidan, P. W. Dorfman, and V. Gupta (Eds.), Culture, leadership, and organizations: The GLOBE study of 62 societies (pp. 564-601). Thousand Oaks, CA: Sage.