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# BUSINESS ETHICS: OXYMORON OR GOOD BUSINESS?

Ronald Duska

**Abstract:** Given that so many people think business ethics is oxymoronic, it might be prudent to investigate why and to determine what if any truth or partial truth they see. Thus, as a hueristic device, I propose to seriously examine the claim that business ethics is a contradiction in terms, and see what follows if business ethics is oxymoronic.

To live happily is the desire of all men. . . . First therefore, we must seek what it is that we are aiming at; then we must look about for the road by which we can reach it most quickly. Seneca, *Moral Essays*

The good is that at which all things aim. Aristotle, *Nichomachean Ethics*

Capitalists have been living on their (ethical) inheritance and it is running out. . . . Free enterprise has degenerated into greed and rapacious capitalism. . . . But the current view is the result of refusing to recognize that economic systems of whatever type are like engines: They provide motive power but do not determine the direction of travel.<sup>1</sup>

**B**usiness ethics! That's an oxymoron." More often than not, that is the reaction when I tell people I teach business ethics. "There is no such thing," they bark. The responses are so uniform they make one think that the only purpose of business ethics is to give currency to the word "oxymoron."

My usual answers to such a dismissal of business ethics has been to point out that without ethics, business could not function, since it requires a great deal of trust and integrity. Or I have pointed out that even though there is unethical business behavior, that is the exception. On the whole, most people in business act ethically most of the time.

Recently, though, I listened as a former CEO reflected on why he left business. He recounted the incredible pressures on him to get return on equity and meet fourth-quarter earnings goals, tasks he viewed as his overriding responsibility. He related his struggle to avoid doing something unethical to meet the demands of his shareholders.

His story made me wonder whether those who think there is no such thing as business ethics might not have a point. Is there some truth to what they say? It occurred to me that some of us in the field ought to ask some hard questions. What if business ethics *is* a contradiction in terms? What if those of us concerned about its legitimacy were like the cuckold—the last to know? Were those

of us touting the possibility of business ethics so blind that, like the emperor and his sycophants, we didn't listen to the children saying we had no clothes? Have we become mere apologists for a corrupt system? Have we become co-opted by the institution we are responsible for examining?

In the face of such doubts, it certainly wouldn't hurt to be a bit critical about our enterprise, and recognize, as Aristotle pointed out, there is usually at least partial truth in commonly held beliefs. In fact, Aristotle began most inquiries by examining commonly held opinions, what in Greek were called *endoxa*, to see what truth could be gleaned from them. Given that so many people think business ethics is oxymoronic, it might be prudent to investigate why and to determine what if any truth or partial truth they see.

Thus, as a hueristic device, I propose to seriously examine the claim that business ethics is a contradiction in terms, and see what follows if business ethics is oxymoronic.

### *Business Ethics as Oxymoron*

If one looks at the purpose of ethics/morality<sup>2</sup> and the common conception of the purpose of business one can make a fairly good case that business ethics is an oxymoron. The argument would run along the following lines. To the extent that business and the market in which it flourishes is driven by an unconstrained pursuit of self-interest, an attitude consistent with egoism,<sup>3</sup> and since egoism is manifestly unethical, business must inevitably run afoul of ethics, which furnishes rules of justice constraining self-interested behavior to avoid the egoism. Business pushes one way, ethics the other. If achieving ever-increasing profit is the basic purpose and principle of business, and economic profitability is the primary and overriding factor in strategic business decisions, ethical behavior and business behavior eventually must conflict. Of course, to make such an argument persuasive we must first show that the nature of business is as we construed it and then specify what we take as the nature of ethics or morality, showing its incompatibility with business.

### *Business as Pursuit of Self-Interest: The Bottom Line Perspective*

Morality or ethics is incompatible with business if following the rules of business practices *inevitably* leads to the *exclusive* pursuit of self-interest—i.e., if the practices are *selfish* and thereby violate the demands of justice. As we shall see, business is a social construct, so it can be what society determines it to be and prevailing opinion will be a major factor in determining what it is, i.e., the received descriptions will turn into prescriptions. Hence the justification, "That's just business."

My impression is that while most business ethicists would not agree with this, the general consensus, *endoxa*, is that there are no responsibilities for business other than the self-interested pursuit of profit. I arrive at that conclusion

from my experience in a number of areas. It is apparent in the words of corporate apologists, when they claim, "Business must do whatever it takes to survive." There is no shortage of defenders of this view, from Albert Carr<sup>4</sup> to Milton Friedman<sup>5</sup> who states, without qualification, "There is *one and only one* social responsibility of business . . . to use resources designed to increase its profits."<sup>6</sup>

If business is such that its one and only responsibility is to increase profits, it is quite sensible to claim there is no such thing as business ethics. Given the competitive pressures of the marketplace, any business will reach a situation where the only way to increase its profits will be at the expense of another. Be it downsizing or firing or just producing, with its attendant externalities, the well-being of a company will demand that action, which will be harmful to some person or persons, be taken. Such an attitude has become ingrained in the leading practitioners and analysts of business today. Consider the following examples.

A (recent) award of 120.5 million dollars to Teresa Goodrich, who lost her husband because Aetna Health Care delayed approving an experimental treatment that might have saved his life, provoked Aetna's chief executive to declare that the jury had been swayed by a "skillful ambulance-chasing lawyer, a politically motivated judge and a weeping widow." (He later apologized to the widow.)<sup>7</sup>

What would lead a CEO, assuming he is a decent person, to be so concerned about his fiduciary obligations to defend the interests of his company, that he abandon all sympathy for the widow and make such a comment? Such callous behavior only can be explained if the CEO believes he is doing right by fulfilling his responsibility to enhance company profits, and if that view has become ingrained in his outlook.

How did the CEO develop such an attitude? The answer is that continual concern over one's responsibility to the bottom line builds up a habitual single-minded view that has no room for justice when it conflicts with strategic profit making. One could call it bottom-line myopia. It is the mark of the rift between ethics and business and the imbeddedness of the belief that business is first and foremost about increasing profit.

The behavior of the Aetna CEO is reminiscent of a story allegedly told by Phil Jackson, the former coach of the Chicago Bulls. It was a story about a frog and a tarantula. The tarantula could not get across a stream and the frog in a friendly gesture suggested that he could give the tarantula a ride on his back. But fearing the tarantula's deadly sting, the frog elicited a promise from the tarantula not to bite him. Having agreed, the tarantula hopped on the frog's back and they began to cross the stream. All was going well until half way across when the tarantula bit the frog. Knowing the worst, the frog (in true utilitarian fashion) said, "Why did you do that? Now we'll both die." To which the tarantula replied, "I know, but that's what I do." Business makes profits. That's what it does. If people get hurt in the process, that's too bad.

But CEOs are not monsters. They are simply pieces in an inescapable game of profit making. Consider a hypothetical case which shows how an environment, where concern for return on equity is paramount, coupled with a fiduciary responsibility to maximize profit, leads to a bottom-line fixation incompatible with ethics.<sup>8</sup>

The president and CEO, John Edgerton, must release the third-quarter financial results for High Performance Life to the investment community within the next 10 days. The High Performance Life Insurance Company, a stock life insurer traded on the New York Stock Exchange, has completed three quarters of its current fiscal year. Sales for the year and for the quarter are significantly behind its financial plan and are disappointing. Consequently, its revenues are lower than projected and causing pressure on earnings projections for the future. The last quarter of the fiscal year, however, is typically the strongest sales quarter of any year. In order to meet the revenue plan and the earnings goals it will need to be by far the largest sales quarter in company history. High Performance Life is a career agency company offering a full portfolio of life insurance and health products. During the third quarter it released to its sales force a new interest-sensitive life product that it expects will stimulate an increase in sales in the future. The company has had a steady and continuous growth in sales, revenue, and earnings over the past 5 years. Its revenue growth and stock price have outpaced industry averages.

He must decide whether or not to raise serious doubts about the achievement of the previous revenue and earnings plan for the fourth quarter, or he must indicate that he expects sales to rebound very strongly in the fourth quarter and meet both revenue and earnings projections. He knows that the analysts are very sensitive to the company's sales expectations, and if he sends a signal that he expects to miss his plan, then it will affect the stock price. In addition, he has a meeting with Standard and Poors rating agency personnel, and the last time he met with them they expressed concern about the aggressive sales plan being achievable.

He called in his senior vice president of sales and emphasized to him the urgency of the disappointing sales results. He stressed in no uncertain terms that the 5-year consistent earnings growth and the stock price were in jeopardy unless the sales plan was met. It was clear that the senior vice president of sales had significant reservations as to whether or not the sales level necessary could be realistically met in the fourth quarter. After some pushing and prodding, however, he admitted that there was a chance of meeting the plan with a company-wide all-out effort. The senior vice president of sales stressed that it would require the coordination and cooperation of not only everyone in the sales organization, but he really needed the full cooperation of the operations and support departments in the home office to make certain that the new business is processed efficiently.

The president is acutely sensitive to the importance of continuing the positive growth and performance that his company has shown over the past 5

years. The shareholders and board of directors are expecting continued growth in revenue and earnings, and indeed his own stock options and incentive bonus are closely tied to both the sales growth and earnings target. He is somewhat encouraged by the fact that in the past 5 years his staff has had to respond to other challenges and problems, and in each instance they came through for him. He believes that his “just get it done” management style has had a positive impact on the company’s performance, and has caused his key personnel to stretch beyond their normal performance levels to achieve these results.

When faced with this scenario, most business practitioners to whom I have introduced it will remark on how much it reminds them of their own company. Further, they think that given the pressures of such a situation, most CEOs not only will opt to push as hard as possible for the sales—including those from companies with high ethical aspirations—but also are forced to do so by the pressure of their position. The truth, no matter how we would like to deny it, seems to be that in business, the pressure from competition and stockholders is such that self-interested pursuit of more and more profit rules the day. The bottom line rules all.

As a final piece of evidence that the bottom-line perspective is not only the common opinion, but the driving opinion about business, consider this account of the career of Jack Welch.

More than 300,000 people have lost their jobs in Jack Welch’s 17-year tenure as CEO at GE, earning him the nickname “Neutron Jack”—for the bomb that destroys people but leaves buildings intact.

For most business people, such moves have made Welch America’s premier corporate changemaster, the wunderkind of Big Business. His methods are extolled in business schools, praised by the media and copied by others.<sup>9</sup>

In short, in the real world, business practitioners are admired not for concerns about justice but for bottom-line performance. There are numerous other examples of the pursuit of ever-increasing profits or return on equity at the expense of ethical concerns in business today. How, for example, to defend an executive in an advertising company who helps persuade people (*pace* Von Hayek) to buy products they really don’t need, products that may be harmful? What are we to make of the entertainment industry, whose violence-filled products are cited as causes for similar violence in the streets? What of the tobacco industry, which produces a deadly product? Each of these industries, identified by their critics as socially irresponsible (i.e., unethical) companies, is judged on the stock market by its success in generating profit.

Given the pressures of the marketplace and the stock market, and the notion, supported by law, that executives have a fiduciary responsibility to increase profits, is it any wonder that business leaders seem almost exclusively bottom-line oriented, so there appears to be no room for justice or ethics, *when and if* it interferes with increased profit?

*The Development of the Current Endoxa: Adam Smith's Views*

How did the current view of the nature and purpose of business arise? How did this attitude develop, and how did it become so ingrained in ordinary thinking? It was not always the predominant view. The primary rationale in legitimating the current view is found in *The Wealth of Nations*, the work of Adam Smith, the famous 18<sup>th</sup>-century philosopher, ethicist, and economist. In that work Smith develops his notion of the system of natural liberty where the pursuit of self-interest is the major force of the market, driving both production and exchange.

Smith indicated that what motivates a great deal of activity is self-interest. He maintained—correctly it seems—that the free pursuit of self-interest without the intent to benefit society will, as if directed by an invisible hand, bring about more social benefit than if visible hands (government intervention) try to intervene and bring about just results. We are all familiar with the following passage.

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. . . . We address ourselves not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages. He generally indeed, neither intends to promote the public interest, nor knows how much he is promoting it . . . and by directing that industry in such a manner as its produce may be of the greatest value, 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 no part of his intention. Nor is it always the worse for society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it.<sup>10</sup>

But Smith, as well as being an economist, was an ethicist who did not see the market as incompatible with morality. Smith cautioned that the free pursuit of self-interest must be limited by considerations of justice and fairness.

Every man, as long as *he does not violate the laws of justice* [italics mine], is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men.<sup>11</sup>

Further, Smith noted that there were two great motivators of humans—self-interest, and a concern for others, which he called “sympathy.” He thought this sympathy and concern for the benefit of others would motivate people to check their self-interest when it was at the expense of others and justice or fairness demanded it. I assume he thought this sympathy would keep a rein on business.

While Smith helped bring about the modern notion of business, as an enterprise involved in the pursuit of self-interest, a careful look at his work shows that he would never envision the unconstrained pursuit of self-interest that is legitimated today. Smith always qualifies his observations about self-interested behavior. For example, while he says, “One who intends only his own gain is led to promote an end (the public good) no part of his intention,” he recognizes that

this result doesn't always occur. It happens "*in many other cases.*" Further, Smith qualifies the self-interested pursuit with the following words. "*Nor is it always the worse for society*" that one pursues one's self-interest, implying that the pursuit of self-interest is sometimes worse for society. Finally, Smith notes that, "In pursuing his own interest he *frequently* promotes that of society." Since frequently does not mean always, it is clear that Smith does not assert that society will *always* be served by individuals promoting their own interest. Rather, he insists that there are cases where society is not served, and in those cases the constraints of justice override self-interested pursuits.

Be that as it may, Smith's cautions against egoism in favor of justice, for very legitimate reasons, are only a minor part of his work, a part of his work that has been largely ignored by subsequent thinkers. His greatest influence on contemporary notions of business is his powerful views legitimating the pursuit of self-interest. The fact that his concerns for justice are so small a part of Smith's work, and consequently have so little influence on today's views, can be explained in the light of the outlook of the people of his day. Smith needed to argue against his own day's *endoxa*, which frowned on the pursuit of self-interest. The burden of proof for Smith was to show the acceptability of pursuing self-interest. To hit his mark of legitimating a system of natural liberty and the pursuit of self-interest, he needed to counter the beliefs of a society largely influenced by the Christian insistence on altruism and self-sacrifice, and argue against a background where notions of fair price and fair wages were paramount. To put his view in focus we need to remind ourselves that his society's concern for justice and its demands was the background out of which he made his recommendations. Whereas in his day, a concern for the laws of justice over against the self-interested attitude of business would have been part of the form of life, today such a concern has been lost and needs to be reintroduced.

Today's defenders of business's pursuit of self-interest do not have to overcome scruples about a self-interested perspective. Contemporary society does not operate out of a background where one must overcome scruples about being self-interested. On the contrary, it operates from a decidedly self-interested perspective.<sup>12</sup> Thus, business exclusively pursuing profit is like the tarantula. It does what it does. Hence the phrase usually uttered in resignation to justify a business activity that one is ethically uncomfortable with: "That's just business."

### *Countering the Smith and Friedman Approach to Ethical Business*

Still, society is not about to accept a practice that is patently harmful and unjust. Such practices need justification. Defenders of Friedman will not agree that business ethics is oxymoronic. Rather they will point out that tough-minded profit making leaves the society better off as a whole—the modern adaptation of Adam Smith's Invisible Hand argument and a utilitarian justification of its practices. They will claim that business's self-interested pursuit of profits has led to better things and a better world.

But the argument is more *a priori* than empirical. In theory, allowing owners to get maximum profit will enhance investment and entrepreneurship by rewarding it. In that way the entire society will be better off, because a rising tide will lift all boats. Justification of business's pursuit of self-interest leads to the greatest good for the greatest number of people. This is an extremely important point, for if it is true, the frustration of self-interested pursuits in the name of justice might cause more harm than help in the long run by dampening productivity.

However, since the argument is a utilitarian justification of self-interested pursuits, it faces two difficulties found in any utilitarian approach: the problem of identifying appropriate ends as well as the problem of fair distribution.

Unless one specifies what the consequences of capitalism are, and judges these as good, the position that capitalism leads to the greatest good for the greatest number of people cannot be defended empirically. It is unquestionable that this capitalist free market system that promotes the self-interested pursuit of profit has produced a higher material standard of living (meaning more material goods) than any other system in history.<sup>13</sup> But it is questionable whether the increase in overall wealth is an adequate goal for a flourishing life. At most it is an instrumental goal. Wealth for what? Goods for what? To encourage the goal of increased material goods at the expense of all other goals is to engage in a debilitating materialism.

Hence it can be claimed that business, viewed as primarily a profit-making enterprise, is incompatible with ethics because it promotes a good that is ethically inappropriate as a final goal. For business to be ethical it needs to subordinate its profit-making goal to other more appropriate goals, a necessity that Friedman recognizes by appealing to the utilitarian invisible hand argument. But then, that newer goal, be it more productivity or wealth, must be judged by an adequate view of what counts as a worthy goal. Those ethicists who criticize business because of the tawdry products it supplies utilize this approach. Those who criticize it for creating a fetish for goods use this approach. Those who critique it for its concern with having rather than being use this approach. It is an approach that says not all economic goods are ethical goods.

It would be refreshing to see a serious discussion of what counts as goods for human beings. Those goods and services need to be, *pace* Mill and Bentham, not merely pleasures, but real quality-of-life goods, and they cannot be instrumental goals functioning as final goals. What appropriate goals are is partially determined by what human beings and their societies are, as well as by which of their potentials are worthy of pursuit. But such goods need to be discovered by analysis, investigation, and experimentation.

There is a second problem that arises from the utilitarian approach of Friedman. Even if one concedes that business promotes good, there is the distribution problem. How are the goods to be distributed fairly? Did capitalist society achieve this material wealth by unfair distribution of goods or exploitation of some segments of society? To promote the maximization of goods at times requires

inequitable distribution. It also requires as much freedom to pursue self-interest as possible. The appropriate ends of activities that affect a society *must*, to be fully ethical, be distributed according to some rules of *fair distribution*—rules utilitarianism does not provide. Any system that appeals to self-interest to maximize goods needs to adopt constraints against selfishness—determinations of who gets how much. For example, if we ask who should get the profits, the notion that the owners get all the profits seems unfair to those who think work should also be one of the chief determinants of how much property one deserves to get. Thus, ethics has to address both the appropriateness of the goods produced and fair distribution of those goods—aspects not adequately covered in the utilitarian justifications. Thus, the invisible hand defense of business ethics is inadequate.

However, there are two other attempts to establish ethics in business, even business that is wholly profit-oriented. The first shows that business needs ethics as a prerequisite for social stability.<sup>14</sup> The second shows that business needs ethics as a strategic advantage—the view that maintains that good ethics is good business. We need to examine them briefly.

### *Ethics as a Prerequisite for Social Stability*

As we have mentioned, a facile response to “Business ethics is an oxymoron” is to show that businesses could not operate without a requisite amount of honesty, trust, and respect for others’ freedom (lack of coercion). Being ethical, then, gets equated with being honest and trustworthy.<sup>15</sup> It is rightly claimed that business would be nearly impossible if most people did not practice some ethical constraint—keeping promises and not deceiving. It is also shown that coercion is incompatible with ideal market transactions that require free choice. Further it is agreed that when honesty, trust, and lack of coercion are employed in business transactions, monitoring costs are lowered, business is generally more efficient, and ideal conditions for market interchange are provided.

However, the need for trust, honesty, and some respect for freedom is true of any well-run organization, even a recognizably immoral one. There must be honor even among thieves. To take two common examples, organized crime and the Nazis, it is clear that even in those organizations there has to be a modicum of honesty and trust among members, and their leaders have to be given enough latitude to do their jobs. So if ethics is reduced to showing that organizations need trust, honesty, and the encouragement of creative individual initiatives, then all well-run organizations are ethical. But that is just false. The ultimate goals of the leaders of organized crime and the Nazis are immoral and misguided, not their dedication, leadership ability, loyalty, and trustworthiness. Hence, it is not enough to keep promises and tell the truth to be ethical. As we have seen before, in the difficulty with utilitarian justification, to have an adequate ethics a company’s goals must be appropriate.

*Ethics as a Strategy for Good (i.e., Profitable) Business*

A second approach among defenders of ethics in business is the approach of those who want to claim that good ethics is good business, usually called the strategy approach to business ethics. Most of the time, being ethical (where that means being trustworthy and not deceiving) does lead to good business, in the sense of more productivity and profit. For example, it is argued that being honest with customers and looking out for their interests will establish long-term relationships that create customer satisfaction, and lead to more sales in the long run. Or treating one's employees fairly or generously will improve employee morale, thereby enhancing productivity. So if being ethical in business means treating customers with care and employees kindly, then that kind of approach is ethical business.

But there is a serious difficulty with this approach. It warrants ethical behavior because it produces good bottom-line results. It subordinates all of the ethical goals into instruments for the final goal, profit maximization. Hence it suffers the very bottom-line myopia or fixation it attempts to overcome. Strategic reasoning appreciates the claims of stakeholders other than stockholders, but not as legitimate claims in themselves—attended to by the corporation because it owes those stakeholders something, as an ethical perspective would, but only as instruments for fulfilling fiduciary obligations to stockholders.

Strategic reasoning looks at ethics as an instrument for serving the bottom line—which, by the way, is the chief way to market any ethics program. (We would do well to consider the impact that the sentencing guidelines have had on the popularity of ethics training sessions.) There are those who claim that one can look at a proposed action from both a strategic and ethical point of view, and find a win/win solution to an issue. But not all issues have win/win solutions. In win/lose cases, to view business from other than a bottom-line, strategic point of view puts one at odds with the view of the responsible businessperson presented by such luminaries as Albert Carr, Milton Friedman, Andrew Stark,<sup>16</sup> and any number of "The Good Ethics is Good Business" people, including the new strategic oriented stakeholder theorists.<sup>17</sup>

The overall problem of such an approach is that if and when good ethics is not good business, so much the worse for good ethics. Make no mistake about it. Sometimes good ethics will be bad business, if good business is defined as bottom-line success. At times to act ethically will be hard and will cost. After all, as Aristotle pointed out almost 2,500 years ago, if being virtuous was always easy, we wouldn't praise it.

Thus, there needs to be more to ethics than the trust and honesty that are requisites of any well-run organization and the ethical strategies such as care for customers, clients, employees, and others that pay off in increased profit. What is it? We propose to look at the purpose of ethics and morality to see what is missing in the views examined thus far.

*The Purpose of Ethics*

Morality has been aptly described<sup>18</sup> as a social system of rules created to allow human beings 1) to adjudicate disputes rationally, without resorting to physical force, so that 2) the relationships affected by the dispute can endure, and allow the individuals in those relationships to flourish. Since most ethical disputes arise over who is entitled to certain goods, two questions are crucial in ethics. What goods help humans to flourish, and how are they to be distributed fairly?

Morality's goal of adjudicating disputes to allow relationships to flourish requires a *rational* adjudication. We can adjudicate disputes by force, but in that case we abandon ethics and might makes right. Rational adjudication of ethics must put fairness in the forefront. The rationality of the principle of fairness can be elucidated simply. Fair treatment requires that "the same should be treated the same," and difference in treatment is justified only when there are relevant differences that justify the different treatment. Determining what counts as relevant is at the heart of ethical inquiry.

To demonstrate the irrationality of unfairness consider what occurs if we treat two identical things differently. If there were two identical paintings, and we thought one had superb composition, it would be illogical to think that the other painting did not also have superb composition. Similarly, if two people are identical in all *relevant* ways, it is irrational to think that one can be entitled to something while the other is not. At an early age, children recognize quite clearly the basic principle of fairness, "the same should be treated the same." They know it is unfair if one of their siblings, who they see as essentially the same, is given a bigger piece of cake. Of course if it is the sibling's birthday, the sibling is entitled to more cake, for having a birthday constitutes a relevant difference for cake distribution. So justice and fairness demand that if we believe most human beings are alike in most morally relevant respects, they should be treated the same in those respects.<sup>19</sup>

Reflecting on the principle of fairness helps us see the unethical nature of selfishness. The defense of selfish behavior rests on the false belief that we are not the same as others, but somehow more deserving. It is important to note that selfishness is not the same as self-interest. The pursuit of self-interest is a perfectly natural and acceptable activity. However, if one puts one's own interest first in a situation where pursuing that interest is unfair to another, one is being selfish. Selfishness occurs when the pursuit of self-interest is *at the expense of another*.

The phrase "at the expense of another" is ambiguous. It can mean a situation where the other is hurt or harmed, or it can mean a situation where the other is harmed by being denied a good to which one is entitled. The selfish approach ignores the entitlement claim. Because I want cake, after eating the piece my mother saved for me (a self-interested action), I also eat the piece she saved for my brother (a selfish action). That's selfish, not simply because I hurt my brother

by depriving him of a good, but because I deprived him of a good to which he was entitled. My brother is deprived of the cake to which he was entitled, which is quite different from simply being deprived of the cake, as might happen if the rule for distribution was “first-come, first-served.” It is impossible in this situation to have one person’s self-interest satisfied without it being at another’s expense. Thus, selfishness cannot be understood simply as pursuit of one’s interest when it hurts another. The hurt must occur over the deprivation of a good to which the other was entitled.

The additional notion of the entitlement claim to selfishness is crucial, particularly in laying out claims of stakeholders, because not all harming is selfish. For example, one may be forced to close down a plant, for the survival of the company, thereby hurting the people in the community. Is that selfish behavior on the part of the company or just self-interested survival behavior? In such a case one could argue the latter. But that is quite different from a case where a plant was closed, obviously hurting people, but where there was some entitlement—because of implied promises or such—to support from the company. One of the main tasks of ethics is to spell out the basis for entitlements and examine situations to see if the grounds of entitlement exist.<sup>20</sup>

Because of situations of scarcity of goods society lays down rules of what in a society will count as fair distribution. The distribution rules become part of that society’s operative rules of morality. They spell out what is considered fair and or just in that society. The demand for justice and enhanced quality of life results in a set of rules for appropriate behavior found in any society—the ethical rules of that society. Ideally these rules would be established by a process of trial and error, and through assigning responsibilities, all of which aim for social stability that will allow the needs of the individuals of the society to be fulfilled.

Capitalism’s fairness rules governing how property gets distributed are a basis for the charge that business is unethical. Ask most everyone in our society, “Who is entitled to the profits of a company?” and they will say, “The shareholders.” That principle of distribution is so ingrained, so second nature, we don’t even think about it. If we ask why, which we rarely do, the answer will be that the owner took the risks or had the idea.

As we have seen, what makes capitalism successful in increasing wealth and productivity is that the rules for distribution tie entitlement to the pursuit of self-interest. If the pursuit of self-interest (survival or profit making) leads a company to act in its own behalf while harming others (workers, community, future generations) it is entitled to act in ways that are harmful by a system that legitimizes that harmful behavior. When we justify harmful behavior with the phrase, “That’s just business,” we are avoiding the charge of injustice since we appeal to the self-interest within the rules. Hence the primary principle that the owner or shareholder is entitled to the profits, and that profits are to be maximized in any way possible short of deceit, fraud, or coercion, leaves no room for other stakeholders to claim entitlement.

But is this system (form of life) ethical? Is it just?

*Two Notions of Justice*

Cicero<sup>21</sup> points out that justice can have two meanings, the first of which is giving everyone their due. The second has to do with not inflicting harm on others and shielding them from harm. With respect to the first meaning of justice, where everyone gets their due, we have seen that our society through its rules, generally favoring business, determines who is due what and on what basis. Since we determine what is due by utilizing the current morality, we need an outside set of evaluations with respect to the fairness of the system. Thus we have questions of fairness *within* the system, where the rule is that the owner is entitled to the profits, and fairness *of* the system, where one can ask whether the distribution that follows from those internal rules is fair.

Cicero, in referring to the second notion of justice, which we can use to evaluate the fairness of the system, claims that an injustice is done, "On the part of those who inflict wrong, and on the part of those who, when they can, do not shield from wrong those upon whom it is being inflicted." This second notion, of shielding from wrong, seems to fit a number of classic cases in the business ethics literature—the Ford Pinto case, the Nestle's infant formula controversy, and any number of plant closings. Thus, when getting one's due (the profits) is at the expense of not shielding employees or clients from harm, the claim of the justice within the system conflicts with the justice of the system. Of course, currently, the wrongs done in the pursuit of profit are euphemized as externalities or simply seen as unavoidable and the price of the overall benefits of the system. They are not seen as unjust.

But what would constitute a wrong? A wrong would occur when one has more goods than enough to meet his needs and keeps them away from those who need them. Here we return to a pre-capitalist notion of justice, found in the work of John Locke, that rests on the principle put forth by Thomas Aquinas, the 13<sup>th</sup>-century philosopher/theologian. Recognizing scarcity, Aquinas constrains property acquisition in the following consideration. "Therefore the division and appropriation of property, which proceeds from human law, must not hinder the satisfaction of man's necessity for such goods. Whatever is held in superabundance is owed, by natural right, to those in need."<sup>22</sup> To the extent that business's notion of what's due to the owners keeps necessary goods out of the hands of others, it is unethical in Cicero's second sense of justice.

Free-market capitalist society has determined that business is a bottom-line profit machine. Like the tarantula, that's what it does. That's its *telos*, or purpose. However, since the *telos* of a specific social institution is not predetermined by nature, but is determined by society, it can change its direction. If it is to get in concert with ethics, it must reexamine its goals and the fairness of its mode of distribution. So, in common opinion, business is viewed as unethical, because it commits avoidable harm in the name of its distribution rules, and in the name of giving freedom of choice to purchasers of goods: "We're only giving the customers what they want." Business at times creates harmful products in the name

of profit and overlooks people in need in the name of allowing others to acquire more than they need. These are the common beliefs about business that conflict with the common beliefs about ethics.

### *A Moral Schizophrenia*

When ethics has one goal and business a different, incompatible goal, we can expect a number of consequences. One is the development of a moral schizophrenia within individuals arising from the conflict between bottom-line myopia and ethical concerns for justice as meeting people's needs. This bottom-line myopia results from a misguided sense of fiduciary responsibility, the responsibility arising from playing one's role. The schizophrenia develops because of the tension between corporate responsibility and personal morality that occurs when business goals are in conflict with ethical ones and are not subsumed under the ethical, but ranged alongside them. They do not coalesce but conflict.

This is what Albert Carr, in his much maligned but perceptive and realistic article, sees. For Carr one must choose between the two spheres, business and ethics, and cannot expect to develop the integrity necessary for being a whole person. Unless it was a crass public relations strategy, the fact that the CEO of AETNA apologized for his remark about the "weeping widow" shows that he recognized his view as seriously flawed from an ethical perspective. Assuming he is a decent person, he is torn between his personal ethical viewpoint and his feeling that he has a fiduciary obligation to defend the interests of the company, no matter what the implications for the widow.

If the system is instrumentally valuable, and we have freely chosen our role in the system, then we have an obligation because of our commitment to carry out that role. In a well-functioning corporation that division of labor serves the ends of the corporation. If those ends of the corporation are morally acceptable, then my role gains legitimacy from its instrumentality. If those ends are not morally acceptable, then though the requirements of my role are set, the immorality of the enterprise makes my fulfilling that role morally questionable. Thus the Nuremberg rule. A soldier's duty is clear as a soldier, but he has a higher duty to morality, if he is engaged in fighting for an unjust cause. Similarly a doctor's need to care for his patient is clear, but not if the care involves what some consider life-terminating activities, such as abortion or assisted suicide.

Thus, role morality is insufficient if the role is instrumental in contributing to an unjust system. On a more mundane level, if one is encouraged by one's superiors to cheat one's customers to maximize bottom-line productivity, one is forced to abandon the obligations consequent upon the role.

But the schizophrenia of the individual is also seen on an institutional level in the conflict between what is good for the corporation and what is good for society. The invisible hand is supposed to guarantee that what's good for business is good for society. But it doesn't always. In the meantime, though, the

belief that it does and the consequent adoption of profit maximization as the only purpose of the corporation leads to what I choose to call the soulless corporation.

### *The Soulless Corporation*

The modern corporation has lost its soul.<sup>23</sup> The soulless corporation is a one that has lost its purpose and survives simply for the sake of survival. But surviving is an instrumental good. Survival for what? Purposes give reason for existence. A well-founded purpose legitimates an institution. If the primary goal of corporations is profit and survival, there will be a bad fit between the public's needs (consumers and others) and those corporations' goals. A purpose such as maximizing profit, which is merely instrumental, cannot sustain itself as an identifiable enterprise. It perverts or loses its meaning.

Modern corporations with their emphasis on profitability necessarily lose their focus. Consider GE as an example.

The layoffs were part of Welch's transformation of a once-great research and manufacturing company, which he through gut-wrenching upheaval turned into a financial services firm. He closed or sold 98 plants in the U.S., 43 percent of the 228 it operated in 1980. Rather than reinvesting heavily to exploit the company's historic skills, he chose to quit business after business because the money to be made lending money or producing television shows was greater than the Edisonian mission of *making things*. In the process a great research institution was diminished. The company Thomas Edison began today generates more revenue from selling insurance, lending money, servicing residential mortgages, managing credit cards, and other financial activities than it does from its five largest manufacturing businesses *combined*. Financial services, 8 percent of corporate earnings in 1980, generates about 40 percent today.<sup>24</sup>

As long as the main purpose of a corporation is maximizing profit in the competitive marketplace, it is impossible to subordinate profit making to providing quality goods and services—which is the reason society let business develop in the first place. Looked upon simply as investment opportunities, corporations have been turned into things to be bought and/or sold, not centers of production. Given the ethical maxim, *nemo dat quod non habet*, (no one gives what he does not have), it is impossible to expect corporations of that sort to think about ethics, except as instrumental strategy.<sup>25</sup>

### *On Refurbishing Business Ethics*

From an economic point of view, one can afford to be ethical only as long as one remains competitive and that is only as long as there are inefficiencies in competitors' operations, or as long as doing the ethical thing leads to efficiencies. After that one will lose the competitive game. To guarantee ethical behavior, then, one must recognize what it consists in, and promote legislation or regulation that makes it economically desirable. The law must serve the ethical point of view.

Beyond legislation and regulation, for any substantial change to occur in business ethics, for it to be even possible, a new view of the purpose of the corporation—one that breaks the spell of the view that its purpose is maximizing profits—is required, as well as a strong identification of ethics with just distribution and appropriate goals.

The function and purpose of the corporation must be viewed from a societal perspective. From society's point of view, the function and purpose of a corporation is not maximization of profits for individuals, but the creation of goods and services to make the members of the society more fulfilled, and not at the expense of those in need. Society invented business to serve its needs, to help its members to flourish. Business, from a societal perspective, was not invented to allow some individuals to prosper at the expense of others. As I have argued elsewhere, the maximization of profits cannot be the primary purpose of business. Identifying profit maximization with business's purpose confuses purposes and motives. That is like confusing the purpose of the train, to get me to London, with what gets me there, the engine. Profits are the engines. The goods and services are the purpose and direction.<sup>26</sup>

Of course, such a call for re-envisioning the purpose of business seems quaint in the high-power world of mergers and acquisitions, but it also seems the only way for businesses to recapture their souls, to remember what they should be about.

### *Is Business Ethics Impossible?*

Let's return to our original problem. Business ethics seems to be a contradiction in terms if we see the sole purpose of business as the pursuit of profit and believe that ethics, being concerned with appropriate ends and distributive justice, eschews those exclusive self-interested pursuits. To establish ethics in business, we need to refocus on the purpose of business. It can't be about being a tarantula. But aside from more regulation, reflecting the public's will on how business activity should be constrained, what can be done? The pessimist in me says, not much. But the optimistic fool, rushing in where angels fear to tread, lets me offer a suggestion for a change of mind.

What I propose, partially as a lark, but partially in a serious mode, is a conversion of the statement, "Good ethics is good business," into the statement "Good business is ethical." This conversion subsumes good business behavior into the class of good ethical behavior.

Our society has determined that the production of cocaine is not (a) good business. It is a business that does harm. For a time society determined that gambling was not a good business for it likewise did harm. There is talk of tobacco production and sales being a bad business, because it does harm. Society itself declares that some products (goods in the economic sense, for which there is a market) are not good (in an ethical sense). Violence in entertainment is the latest product to be targeted for control. For better or worse, society, or rather its members, make decisions about what is good or not, and put constraints on its

production. Thus, while the production and distribution of cocaine is successful for its owners from an economic point of view, it is bad business from an ethical point of view. The current debates on gun manufacture, pollution, sustainability, and other topics all show that ethics is attempting to constrain business, because it is not productive of acceptable and appropriate goods.

All of our goals or ends and those of our society are not laudable. The goal of accumulating wealth, if it becomes a final goal and not a merely instrumental goal, will come up short. So will the goal of pleasure. A person fixated with pleasure seeking, or a person fixated with the mere accumulation of wealth, are to morally healthy humans what a shriveled tomato is to a red, juicy, robust, vine-ripened tomato one picks in the middle of August. To understand what appropriate goods are we need to turn to something like Aristotle's notion of the good life, which he equated with activity in accord with virtues, especially the virtues of prudence, justice, temperance, and fortitude.

In conclusion we would point out that business cannot serve only itself. It is thoroughly intertwined in almost every aspect of contemporary life. It operates within an economic system that takes over huge portions of our time, interests, and lives. It has become a form of life, with fairness rules, that govern the distribution of assets and liabilities, rules that have become second nature to most of us, and which we rarely question. It can be viewed as a game that has its rewards, and the successful businessperson knows how to play the game well. But such playing, without concern for the wrong it does, allows ethics to be subsumed under business. We must reverse that.

The thrust of a business ethic, which would be possible and not oxymoronic, would begin with a vision of the good life, individually and institutionally. It would be aspirational. Johnson and Johnson's credo is an example of what they take a virtuous company to be. Portraits of ethical business leaders and statements of business leaders who aspire to be ethical such as James Autry's read this way.

I take seriously the role of business and its impact on society. I shudder when I hear some businessperson say, "It's just business," because that usually means something is being done in the name of business that would not be done if that person were doing it in the name of himself or herself. Always remember this: If we can commit an injustice in the name of business, we can commit an injustice in the name of anything.<sup>27</sup>

To the challenge that the statement "Good Business is Good Ethics" when construed this way is tautological, one can only reply, "Of course." It cannot be empirically true if by good business we mean good bottom line, and by good ethics we mean the right thing. Sometimes doing the right thing will negatively affect the bottom line. To the claim that it is idealistic, one can only reply, once more, "Of course." But paradoxically, what moves people are aspirations and views of the possible. The thrust of business ethics must be to hold out a model of the most desirable that is possible, an aspiration to bring the system of business into accord with the aspirations of justice, a justice defined in terms of quality of life. That is why recent books such as Solomon's *Ethics and Excellence*,

Hartman's *Organizational Ethics and the Good Life*, Freeman's *Strategic Management*, and the work of Laura Nash and Lynne Sharp Paine, such as "Managing with Organizational Integrity," are on the mark. Stories and hagiography will be the business ethics of the new millennium. Ideals will impact on the law and the culture, to make it easier for individuals and organizations to achieve integrity.

### Notes

<sup>1</sup>David C. Stolinsky, "Capitalism is Squandering its Inheritance," *The New Oxford Review*, April 1999, p. 43.

<sup>2</sup>I propose to use the words interchangeably in this paper, since I see no significant difference between them.

<sup>3</sup>I take egoism to be the ethical theory that maintains "One ought *always* to pursue one's own self-interest." Anything short of demanding the *always* adopts an overriding principle that is not egoistic in some cases. For example, a theory such that everyone ought to pursue their own interest unless it hurts someone else qualifies the egoism, and utilizes some other ethical theoretical principle as a basis for its decision making.

<sup>4</sup>Albert Carr, "Is Business Bluffing Ethical?" *The Harvard Business Review*, January/February 1968.

<sup>5</sup>Milton Friedman, "The Social Responsibility of Business is to Increase Its Profits," *New York Times Magazine*, September 13, 1970.

<sup>6</sup>Even if Friedman did not mean the strong phrase "one and only one" (which is a highly dubious assumption since he quotes it in an infamous article from his earlier book *Capitalism and Freedom*), most defenders of this neo-classical view of corporate responsibility seem to agree with the "one and only" qualification.

<sup>7</sup>The Editors, *The Journal of Commerce*, April 22, 1999, p. 10A.

<sup>8</sup>This scenario is part of a case written by Chuck Soule, former CEO of Paul Revere Insurance Co., and is used with his permission.

<sup>9</sup>Thomas F. O'Boyle, "Profit at Any Cost," *Business Ethics*, March/April 1999, p. 14.

<sup>10</sup>Adam Smith, *The Wealth of Nations*, ed. R. H. Campbell and A. S. Skinner (Oxford: Oxford University Press, 1976; reprinted Indianapolis: Liberty Classics, 1981), I, ii, 2.

<sup>11</sup>*The Wealth of Nations*, IV, ix, 51.

<sup>12</sup>Cf. Ayn Rand, *The Virtue of Selfishness* (New York: New American Library, 1989).

<sup>13</sup>How much the invisible hand depends of the social stability of an ethics-driven society remains a largely unexplored question, but analysis of the introduction of free market economics in Russia seems to show that it does not work well absent some basic ethical cohesion of the society.

<sup>14</sup>There are similarities here to Kant's ethics, which rests on the necessity of consistent behavior. Compare his use of the first Categorical Imperative, which shows that if dishonesty were universalized, trust would disappear. Cf. Bowie, Duska, *Business Ethics*, 2<sup>nd</sup> ed., (New York: Prentice-Hall, 1990), pp. 45ff.

<sup>15</sup>Note the recent spate of articles on integrity, honesty and trust in the literature.

<sup>16</sup>Andrew Stark, "What's the Matter with Business Ethics?" *Harvard Business Review*, April 1993.

<sup>17</sup>See the April 1999 edition of *The Academy of Management Review*.

<sup>18</sup>Stanley Cavell, *The Claims of Reason* (New York: Oxford University Press, 1980), p. 245.

<sup>19</sup>Such a notion of fairness and rational thinking is what underlies a principle like the Golden Rule, "Do unto others as you would have others do unto you," or Kant's principle of respect for persons, "Act so as never to treat another rational being merely as a means." These principles reinforce the notion that others are the same as you or I in most relevant respects.

<sup>20</sup>This is the area where the type of concerns of John Rawls in *Theory of Justice* become crucial. I have critiqued the limitations of Rawls's position in my article, "The Religious Roots of Business Ethics."

<sup>21</sup>Cicero, *DE officiis*, Bk. I, sec. 7, "Justice," The Loeb translation (Cambridge, Mass.: Harvard University Press, 1930).

<sup>22</sup>Thomas Aquinas, *Summa Theologica*, II-II, Q. 66, art. 7.

<sup>23</sup>I mean by *soul* a notion equivalent to *form*, in an Aristotelian sense, where the formal cause, the "what" the thing is, is determined by the final cause, its "for what" (*raison d'être*). The purpose of anything (its final cause) defines what it is (its form), as well as the rules that tell us whether it is good or not.

<sup>24</sup>O'Boyle, "Profit at Any Cost."

<sup>25</sup>Sadly, this even applies to nonprofits, which use the same bottom-line techniques. They just have larger margins for expenses. For example, in the competition for students, colleges have catered to students' wants instead of to the primary purpose of colleges—the pursuit and transmission of truth. Birthrights are sold for a mess of porridge.

<sup>26</sup>See my "The Why's of Business Revisited," *Journal of Business Ethics* 16 (1997): 1401–1409.

<sup>27</sup>James A. Autry, *Life and Work: A Manager's Search for Meaning* (New York: Avon Books, 1995).