

**Business Ethics/Corporate
Social Responsibility Overview**

**Business Ethics &
Corporate Social Responsibility**

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

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

- What are the *advantages* of the corporate form of organization, *vis-a-vis* the alternative structures of sole proprietorships or partnerships?

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

- What *is* a corporation?

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

- Trusteeship Model
 - Trustor
 - Trustee
 - Beneficiary

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

- D. Fraher on Corporate Trusteeship

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

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

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

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

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

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

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

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

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

- What is the corporation?
 - A corporation is an artificial being, invisible, intangible, and existing only in contemplation of law. Being the mere creature of law, it possesses only those properties which the charter of creation confers upon it, either expressly, or as incidental to its very existence.
 - Chief Justice Marshall, Dartmouth vs Woodward (1819)

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

- By what *mechanism* are corporations formed?

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

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

- What are the differences between *legal*, *social*, and *ethical* responsibility?

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

- What *logic* can be used to support the notion that corporations have *legal* responsibilities? That they have *social* responsibilities? That they have *ethical* responsibilities?

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

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

Social Contract Theory

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

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

- What *examples* of social contracts can
you provide from our own country's
history?

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

- By what *process* do you think social contracts ought to be established? More specifically, *who* should be involved in 'writing' the social contract?

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

- If you were designing an organization, what *rules* would you propose be part of the organization's social contract with its *shareholders*? Its *customers*? Its *employees*? The *public at large*?

Social Contract Theory

- Basic facts about the conditions of human life:

equality of need
scarcity
the essential equality of human power
limited altruism

Social Contract Theory

Suppose that in living together with other people, you can adopt either of two strategies:

- “acting egoistically”
- “acting benevolently”

Social Contract Theory

- In a world populated by those who behave egoistically and those who behave benevolently, what is the best situation you can hope for?

Social Contract Theory

- In a world populated by those who behave egoistically and those who behave benevolently, what is the next best situation you can hope for?

Social Contract Theory

- In a world populated by those who behave egoistically and those who behave benevolently, what is the next best situation you can hope for?

Social Contract Theory

- In a world populated by those who behave egoistically and those who behave benevolently, what is the worst situation you can hope for?

Social Contract Theory

Based on these assessments, you should conclude that you should *not* adopt the policy of respecting other people's interests:

Social Contract Theory

- Either other people will respect your interests or they won't.
- If they do respect your interests, you will be better off not respecting theirs whenever it is to your advantage not to do so. This will be the optimum situation.
- If they do not respect your interests, then it would be foolish for you to respect theirs--that would land you in the worst possible situation.
- Therefore, regardless of what other people do, you are better off adopting the policy of not respecting their interests.

Social Contract Theory

And now we come to the catch:
other people, of course, can reason in the same way, and the result will be that we end up back in Hobbes's state of nature.
And in this situation each of us is obviously worse off than we would be if we cooperated.

Social Contract Theory

- 1) You would be best off in a situation in which you were an egoist while other people were benevolent.
- 2) The next best situation for you would be one in which everyone was benevolent.
- 3) A bad situation, but not the worst, would be one in which everyone was egoistic.
- 4) And finally, you would be *worst* off in a situation in which you respect other people's interests but they ignore yours.

Social Contract Theory

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

Social Contract Theory

Clearly, what is needed to escape the state of nature is some way for people to cooperate with one another.
By cooperating, and dividing the labor, the amount of essential goods could be increased and distributed to all who need them.

Social Contract Theory

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

Social Contract Theory

To escape the state of nature, then, people must agree to the establishment of rules to govern their relations with one another, and they must agree to the establishment of an agency--the state--with the power necessary to enforce those rules...

Social Contract Theory

...for it is the government, with its systems of laws, police, and courts, that *ensures* that people can live with a minimum fear of attack and that people will have to keep their bargains with one another.

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

- What '*problem*' is social contract theory meant to resolve?

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

- How *formal* should social contracts be?
Why?

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

- What are the *legal duties* of those who *manage* corporations? What are the *social* duties of these same individuals? The *ethical* duties?

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

- It has oftentimes been claimed that the only objective of managers is to *maximize* shareholder wealth. What *justification* can be provided for this point of view?

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

- What is implied by shareholder wealth *maximization*? Specifically, what does this perspective 'mean' for the interests of other *stakeholders*?

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

- What is a '*stakeholder*,' and why should stakeholder interests be taken seriously?

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

- How would you go about *prioritizing* the interests of stakeholders? With what *justification* would you establish these priorities?

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

- For whose benefit ought the corporation act?

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

- Stakeholder: Any group which either...
 - ...can affect the ability of the corporation to achieve its mission,
 - or
 - ...which is affected by the corporation's activities

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

The Bluebird Smelter Case

Bluebird Smelter Case

Total Social Benefits:

Payroll (100 X \$20,000)	2,000,000
Benefits (100 x \$1,000)	100,000
Community income	4,600,000
Local taxes/fees	125,000
Social services/charity	20,000
Total Social Benefits	\$ 6,845,000

Bluebird Smelter Case

Total Social Costs:

Excess deaths (5 X \$1,000,000)	5,000,000
Health/illness	450,000
Crop/property damage	1,000,000
Aesthetic value reduction	100,000
Lost tourism	100,000
Total Social Costs	\$ 7,450,000

Bluebird Smelter Case

Total Social Benefits	\$ 6,845,000
Total Social Costs	\$ 7,450,000
Net Social Loss	\$ 605,000

Bluebird Smelter Case

Total Social Costs:

Excess deaths (5 X \$1,000,000)	5,000,000
Health/illness	450,000
Crop/property damage	1,000,000
Aesthetic value reduction	100,000
Lost tourism	100,000
Total Social Costs	\$ 7,450,000

Bluebird Smelter Case

Break-even Cost of a Human Life

Bluebird Smelter Case

Break-even Cost of a Human Life

Total Social Benefits	\$ 6,845,000
Total Social Costs (w/o excess deaths)	\$ 2,450,000
Net Social Profit (w/o excess deaths)	\$ 4,395,000

Bluebird Smelter Case

Break-even Cost of a Human Life

Net Social Profit (w/o excess deaths)	\$ 4,395,000
Divided by number of deaths	5
Break-even cost of a human life	\$ 879,000

Bluebird Smelter Case

Total Social Costs:

Excess deaths (5 X \$ 879,000)	4,395,000
Health/illness	450,000
Crop/property damage	1,000,000
Aesthetic value reduction	100,000
Lost tourism	100,000
Total Social Costs	\$ 6,845,000

Bluebird Smelter Case

Total Social Benefits	\$ 6,845,000
Total Social Costs	\$ 6,845,000
Net Social Loss	\$ 0

Discussion Questions...

- Is a human life worth *more* or *less* than \$879,000?
- What factors ought we to consider when placing a value on human life?

**Business Ethics &
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De George on Corporate Social Responsibility

**Business Ethics &
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Corporations are not human beings. The differences between human individuals and corporations, other formal organizations, and nations are significant from a moral point of view and from the point of view of moral responsibility.

**Business Ethics &
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A corporation as such has no conscience, no feelings, no consciousness of its own. It has a conscience only to the extent that those who make it up act for it in such a way as to evince something comparable to conscience.

**Business Ethics &
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Because a corporation only acts through those who act for it, it is the latter who must assume responsibility for the corporation.

**Business Ethics &
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- Vehicle met all NTSB standards
- Vehicle was as safe as other automobiles in its class
- Social costs of modification exceeded social benefits
 - 11,000,000 vehicles @ \$11/ \$121,000,000
 - 180 persons @ \$200,000/ \$36,000,000

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

- Who is responsible for the decision to introduce the Ford Pinto without modification?

**Business Ethics &
Corporate Social Responsibility: The Pseudo-
Religious View**

**Business Ethics &
Corporate Social Responsibility: The Pseudo-
Religious View**

- The metaphor of the veil
- The metaphor of sanctuary

**Business Ethics/Corporate Social
Responsibility Overview**

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

--Kenneth Andrews

**Business Ethics/Corporate Social
Responsibility Overview**

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

--Adam Smith

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