

CAN ETHICAL PRACTICES IN THE WORKPLACE CONFLICT  
WITH ECONOMIC GOALS?

by

William P. Schaefer  
A Thesis  
Submitted to the  
Graduate Faculty  
of  
George Mason University  
in Partial Fulfillment of  
The Requirements for the Degree  
of  
Master of Arts  
Philosophy

Committee:

\_\_\_\_\_ Director

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_ Department Chairperson

\_\_\_\_\_ Dean, College of Humanities  
and Social Sciences

Date: \_\_\_\_\_ Spring Semester 2014  
George Mason University  
Fairfax, VA

Can Ethical Practices in the Workplace Conflict with Economic Goals?

A thesis submitted in partial fulfillment of the requirements for the degree of Master of Arts at George Mason University

By

William P. Schaefer  
Bachelor of Arts  
Arizona State University, 1992

Director: Derek Boyd, Assistant Professor  
Department of Philosophy

Spring Semester 2014  
George Mason University  
Fairfax, VA

© William P. Schaefer 2014  
All Rights Reserved

## DEDICATION

In memory of my father, Milton E. Schaefer, a man who always wondered, always asked, and always learned.

## ACKNOWLEDGEMENTS

It would not have been possible to write this thesis without the encouragement and support of several special people. I wish to express my heartfelt appreciation to my extraordinarily patient wife Debra who sacrificed much so that I could have countless quiet moments to read and to write. I could not have done it without her. I am grateful to my employer, the Society for Human Resource Management (SHRM) for funding this degree. I am particularly thankful to my direct supervisor and colleague at SHRM, Nancy Woolever, who accorded me the flexibility to manage my work responsibilities and my studies. I am indebted to two faculty members who supported me on my journey: Rose Cherubin, my initial contact in the Department of Philosophy and the person who encouraged me to begin the journey, and Roger Paden, my academic advisor who so thoughtfully guided me down a unique educational path. I wish to thank my thesis director Derek Boyd and thesis committee members Mark Sagoff, and Bonnie Stabile. Their comments, suggestions, and edits challenged my thoughts, kept me on track, and improved this project beyond measure. Finally, I wish to express my thanks to my friends and family who regularly inquired on my progress and understood when I could not come out to play.

## TABLE OF CONTENTS

	Page
Abstract.....	vi
Chapter 1 Economic History and the Concept of Self-Interest.....	1
Chapter 2 Understanding Virtue, Self-Interest, Sympathy, and Motivation.....	20
Chapter 3 Cultural Influences and Their Effect on Ethical Business Practices .....	45
Chapter 4 Application, Analysis, and Conclusion .....	62
List of References. ....	86

## ABSTRACT

### CAN ETHICAL PRACTICES IN THE WORKPLACE CONFLICT WITH ECONOMIC GOALS?

William P. Schaefer, M.A.

George Mason University, 2014

Thesis Director: Dr. Derek Boyd

Self-interest is a very strong emotion. It has undoubtedly influenced the actions of human beings for thousands of years and it continues to do so in numerous ways and in specific contexts. This paper examines self-interest as it relates to ethical practices in the workplace. Through four chapters, I explore whether ethical practices can conflict with economic goals. I first address specific historical aspects of economic theory, particularly the economic thoughts of Plato, Aristotle, Adam Smith, Milton Friedman, and R. Edward Freeman. In the second chapter, the focus is on the notion of virtue as understood by Aristotle and Smith. Additionally, the concepts of sympathy and human motivation are introduced, both within the context of self-interest. Corporate social responsibility and organizational structure are also discussed. In the first two chapters, ethical business practices are examined primarily from an American perspective; in the third chapter, I consider how various methods of ethical standards and practices within global

organizations are influenced by local, cultural values. A discussion of ethics programs and codes of ethics is presented within the context of multinational enterprises (MNEs). In the final chapter, the conversation about codes of ethics continues. In doing so, the teleological and deontological schools of ethical thought are presented. Ronald Coase is introduced in the fourth chapter with the intent of discovering why organizations (firms) develop and survive in an environment where employee self-interest flourishes and a market exists. Finally, I conclude that in specific situations, ethical practices can indeed conflict with the economic goals of an organization.



## CHAPTER 1: ECONOMIC HISTORY AND THE CONCEPT OF SELF-INTEREST

In recent years, it has become fashionable to place an elevated significance on the application of ethical principles within the business environment. Many people would agree, and perhaps with little thought, that an organization should apply some level of ethical standard to its business practices. In their minds, it might feel “right” to do so. Perhaps this is a direct result of conclusions drawn by individuals who witness apparent successful results in a business setting where ethical practices are present. Maybe others experience business failures and they perceive the downfall to be related to a lack of ethical practice within the organization which can potentially create public cynicism and disenchantment toward the business ethics project. Perhaps there is a misunderstanding of what ethical practice truly means in a business context. In any case, “business ethics” is often perceived as an important component to a successful organization and recently, more attention has been given to the concept.

In this paper, I wish to investigate whether the economic goals of an organization, whatever they may be, can successfully survive in an environment where an organization institutes what Amartya Sen (1997) refers to as “self-imposed choice constraints” (6). These ethical constraints are, at times, influenced by the self-interest of individuals within an organization. That collection of self-interested viewpoints can produce an overall

organizational stance on ethical and economic goals and that stance can often be in conflict. Can the desire for wealth accumulation (profit) and the wish to create an ethical and socially responsible organization successfully combine and thus achieve the economic goals of an organization? Will an organization retreat from its ethical focus if its economic goals are threatened? And how are we to understand the motivating force behind either action?

Amartya Sen (1997) nicely sets the table for these questions:

Sometimes the multiplicity of normative demands may not take the explicit form of multiple objectives, but of a combination of objectives and constraints. For example, it may involve the pursuit of some unified objective (may be [sic] even maximization of profits), but subject to some self-imposed choice constraints that qualify and restrain the pursuit of the unified objective. Such constraints can reflect rules and conventions of 'proper' behavior which the person involved chooses to follow. The restraints that bind the maximization of profits would, then, include not only the 'feasibility constraints' that reflect the limits of what one *can* do, but also 'self-imposed constraints' that the person *chooses* to obey on moral or conventional or even strategic grounds (6).

In addressing the concept of self-constraint, Sen personalizes the ability to obey the constraints. From an overall perspective, organizations can and do pursue various business objectives and they may choose to apply self-imposed constraints to any or all of the objectives. For example, organizations may choose to constrain international business efforts with countries where unethical business practices are evident or where political realities indicate a lack of human freedom and dignity. This is an ethical choice that could hamper business strategy if the countries in question would be solid business partners otherwise. Following organizational self-constraint can, and often does fall on individual managers and employees. That being the case, we can speak of organizational self-

imposed constraints as being representative of the self-interests of individuals within the organization rather than belonging to the “organization” itself. I will explore this concept later in this paper.

It is important to begin by examining the history of economic thought so that the context of business ethics in the contemporary business environment is clearly understood. For instance, Lionel Robbins (1998) states:

...the history of the subject is not necessarily important to you in professional life, unless you aspire to teach the subject matter later on... But as regards *understanding* of what goes on in the contemporary world, of what goes on in intelligent conversation about our subject, the answer is different. The answer is, I think, that the subject *is* of some use. It's a subject which, strange as it may seem, has the property of being described – to use the fashionable word – as relevant to your interest in the world around you (6).

As with all fields of learning, it is difficult to understand the current trends without having insight into at least a sampling of the trends that preceded them.

Throughout its history, the field of economics has relied on thought experiments to support changing and developing economic viewpoints. These changes and developments of economic thought do not exist in a vacuum. The economic conditions and disorders of any given time produce beliefs and thought experiments that reflect the economic and social circumstances that exist at that time, dragging along with it relevant, applicable economic theory from the past. This economic history reaches back into philosophical history almost as far as one can go, to Plato and Aristotle, where we discover the underpinnings of economic thought. Though their economic theories were

new at the time, it is not difficult to recognize their influence on the economic structure that is familiar to us today.

Both Plato and Aristotle are known for their wide-ranging, generalist views of philosophical issues; and, included in their repertoire, are notable discussions on economic theory. They wish to understand the “good State,” one where justice prevails. “What is justice in a good State? they were led to consider, in some sense or other, the economic relationships prevailing in actual States and contrasting them with what they hoped to find prevailing in the good State” (Robbins 1998, 11). Interestingly, for our purposes, Robbins additionally notes that Plato, in his *Republic*, is the first person to give voice to the concept of the division of labor.

Plato’s vision is based on personal relationships and on the differences in nature among human beings. These differences define the position of every person in any given society. Plato (1974) notes that people need each other, and “[a]s they need many things, people make use of one another for various purposes. They gather many associates and helpers to live in one place, and to this settlement we give the name of city” (39-40). He also recognizes the need for bartering in order to improve one’s lot and the lot of others. Plato (1974) asks whether “...they share with one another, both giving and taking in so far as they do, because they think this better for themselves?” (40). The response is affirmative and Plato thus begins a lengthy discussion about the division of labor. The general concept is that “[o]ne man obviously must be a farmer, another a builder, and another a weaver. Or should we add a cobbler and some other craftsman to look after our physical needs?” (Plato 1974, 40).

Aristotle's economic views are likewise understood as seminal; however, "...it is in economic *analysis* that Aristotle's influence has been so long-lasting" (Robbins 1998, 18). The concept of economy in Aristotle's view is its association with "household management." The term implies that we consider the management of an individual's personal economy vis-à-vis his household needs. The management in question often commences with the simple act of bartering. "This kind of exchange is not contrary to nature, nor is it any kind of wealth acquisition; for its purpose was to fill a lack in a natural self-sufficiency" (Aristotle 1998, 16, 1257a28). As life becomes more complicated, exchanges move beyond bartering to an indirect exchange of money for commodities. This process of indirect exchange, or commerce, is simply the basic function of economics.

Aristotle's observations on the methods of commerce are noteworthy. He perceives the acquisition of wealth as natural when it applies to general household management; however, he identifies the pursuit of unlimited amounts of acquired property achieved through commerce, especially money, to be "not natural at all" (Aristotle 1998, 16, 1257b11). Aristotle (1998) explains:

At first, commerce was probably a simple affair, but then it became more of a craft as experience taught people how and from what sources the greatest profit could be made through exchange. That is why it is held that wealth acquisition is concerned primarily with money, and that its task is to be able to find sources from which a pile of wealth will come (16, 1257b2).

Aristotle (1998) continues: "...for natural wealth and wealth acquisition *are* different" (17, 1257b18). Furthermore, "[t]he wealth that derives from this kind of wealth

acquisition [commerce] *is* without limit... The kind of wealth acquisition that is a part of household management, on the other hand, does have a limit, since this is not the task of household management” (Aristotle, 1998, 17, 1257b23, 28). Is Aristotle correct when he asserts that household management “does have a limit?” Perhaps this was considered true in his time. In our time, however, financial resources directed at household management seem to go well beyond what was likely a minimalist view of one’s needs, not wants, in Aristotle’s time. This may indicate that Aristotle’s definition of natural wealth has expanded over time and now depends on wealth acquisition to bolster an elevated “want” level that was once understood by Aristotle to be only a natural “need” level. Many individuals in contemporary society desire and require the acquisition of wealth to satisfy general “wants” over specific household “needs.” Perhaps Aristotle understands overly self-interested individuals as people who lack an appropriate level of virtue because of their need and desire for excess. As he states: “...those who do aim at living well seek what promotes physical gratification. So, since this too seems to depend on having property, they spend all their time acquiring wealth... since their gratification lies in excess, they seek the craft that produces the excess needed for gratification” (Aristotle 1998, 17, 1257b42).

Plato and Aristotle begin the economic discussion and centuries later, in 1776, Smith seizes the baton and runs with it. He begins Book 1, Chapter 1 of his famous work, *An Inquiry into the Nature and Causes of the Wealth of Nations* (hereafter referred to as *The Wealth of Nations*), by addressing Plato’s ancient principle, the division of labor. Smith does not specifically mention Plato; however, Plato’s viewpoints must surely

influence Smith to some degree as he formulates his own thoughts on the division of labor. The first sentence in Chapter 1 immediately sets the tone and path for the book: “The greatest improvement in the productive powers of labour (sic), and the greater part of the skill, dexterity, and judgment with which it is any where (sic) directed, or applied, seem to have been the effects of the division of labour (sic)” (3).

Smith addresses the concept of the division of labor from the standpoint of education, similar to Plato’s notions also rooted in education. Plato, however, explores the idea of inherent differences between individuals and Smith brushes up against that opinion: “The difference between the most dissimilar characters, between a philosopher and a common street porter, for example, seems to arise not so much from nature, as from habit, custom, and education” (Smith 1937, 15). Smith is able to combine the economic thought from the centuries that preceded him with the economic knowledge gained during his life in the enlightened 18<sup>th</sup> century. In either case, Plato and Smith focus on the same issue, the division of labor. Although Smith incorporates Plato’s ideas that influence him, the central theme is still one of divisions among laborers. This is a basic organizational staffing issue that begins with Plato and subsequently follows a common thread up to the staffing practices of contemporary organizations.

Interestingly, while Plato and Smith follow a similar path when speaking of the same economic issue in Book 1, Aristotle and Smith seem to share a path while also taking separate paths in Book 2. In Chapter III of Book 2, Smith immediately begins by discussing the accumulation of capital, an Aristotelian theme with which we are now familiar. For Smith, it seems that wealth accumulation and the use of such wealth in the

economic “market” is an all too natural human behavior. “It comes about in the first place because self-interest acts as a driving power to guide men to whatever work society is willing to pay for. ‘It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner,’ says Smith, ‘but from their regard to their self-interest’” (Heilbroner 1972, 53). Self-interest leading to wealth accumulation is likely what motivated citizens in Aristotle’s time to participate in commerce. That same self-interest is almost certainly what motivated people in Smith’s time to participate in the market. Business competition arises when, within a specific environment, there are enough self-interested people with specialized skill sets to produce enough of the desired goods for those living in that environment at a price range in which they are willing to pay. Hence, the market.

Discussion of markets and self-interest indicate that the baton continually advances. For example, Sen (1977) notes that in the 19<sup>th</sup> century, “Edgeworth asserted that ‘the first principle of Economics is that every agent is actuated only by self-interest’” (317). Although Sen recognizes “problems” related to the influence of this line of thinking in economic theory, he also notes that “[t]his view of man has been a persistent one in economic models...” (317). Self-interest seems to be a natural state of human behavior; therefore, Edgeworth’s comment is not surprising. Sen notes, however, that Edgeworth additionally suspects that “...man is for the most part an impure egoist, a mixed utilitarian” (317). Edgeworth therefore believes that human beings, although primarily self-interested, are often drawn to the utilitarian theory that states that the morally “right” actions taken within a society should seek to maximize the greatest level



of welfare or “good” for all who live within the society. Edgeworth’s stance seems to indicate that self-interest is the overriding part of human emotion and the smaller part, utilitarianism, is what creates the impure aspect of the egoist.

How does self-interest apply to business? Organizations undoubtedly wish to protect their interests. Most organizations employ some type of economic forecasting as a component of their strategic plan. On a consistent basis, perhaps daily, organizations analyze the overall cost of conducting business, the prices that they set for their products, and the business environment in which they compete. These actions are the essential forces of self-interest. There would be little reason to focus on these microeconomic actions if organizations were not interested in increasing business, thereby increasing and maximizing profits. Profit has been, at least traditionally, the understood rationale behind why organizations compete in the marketplace.

Richard Schmalensee (1988) comments, however, that there are “...two main criticisms of the traditional assumption that firms maximize profits, properly generalised (sic) where appropriate to mean maximisation (sic) of shareholder’s wealth” (651). He suggests that the real work and the choices that managers must make on a daily basis are “much harder” than the “simplified problems” with which theorists grapple. Furthermore, “managerial blunders” are an element of the real workplace. Schmalensee’s supposition is that “...there is evidence that managers often follow simple rules of thumb in lieu of consciously maximising (sic)...” (651), yet, he admits that he has been unable to draw a conclusion that there are “systematic departures” from the maximization of profit. Joseph

G. Nellis and David Parker (1997) likewise address the supposition surrounding profit maximization:

In reality, management in large companies may pursue a wide range of objectives, which may not always be wholly consistent (e.g. [sic] maximizing output as against minimizing environmental damage). Profit maximization for shareholders... may be but one element amongst such objectives and may not be of most immediate importance in the eyes of management (7).

Nellis and Parker identify alternative potential goals that managers might wish to achieve such as personal goals, status, rewards, among others. Many of the goals are personal in nature and satisfy *personal* self-interest. Nellis and Parker furthermore state "...that managers at any given time may not be actively attempting to maximize any particular goal, preferring instead to achieve a *satisfactory* level of performance across a range of indicators..." (7). This is in keeping with Schlamensee's thoughts on simple rules of thumb among managers.

One can address organizational self-imposed constraints as representative of the self-interests of individuals within the organization (e.g., managers and employees) rather than belonging to the organization itself. That being the case, perhaps clarification of the word "manager" is needed. At what level in an organization are Schlamensee, Nellis, and Parker placing "managers? Mid-level managers are largely directed by individuals at higher managerial levels (directors) who focus intensely on all aspects of the business, including profit maximization. The directors spend their time discussing theory and planning strategy while the mid-level managers put into practice these concepts when it is feasible and timely to do so. Stretching the definition of manager, R. Edward Freeman

notes that "...management has a duty of safeguarding the welfare of the abstract entity that is the corporation" (44). Freeman takes managerial responsibility a step further by claiming that "...top management, must look after the health of the corporation, and this involves balancing the multiple claims of conflicting stakeholders" (44). In this case, managers must focus on more than the organization itself by adding a layer of moral responsibility that extends into the community. I will return to this concept shortly.

The second profit maximization critique that Schmalensee presents is "...the observation that most large corporations are not managed by their owners. Thus managers are likely to have objectives other than maximising (sic) owners' wealth. Moreover, many boards of directors are dominated by managers, not owners" (651). Schmalensee assumes that the freedom that managers enjoy in such situations allow them to follow their own goals while dismissing, or at least slightly pushing to the side the goals of the organization. Perhaps this is the case, at least to a certain extent, yet it seems likely that the managers in question are supervised by higher level directors who are likely to reward their subordinates for closely following the organizational goals established by those at the highest levels of management.

Industrial economics, also referred to as industrial organization, is a tool used by organizations to understand their structure and behavior within the market. Schmalensee (1988) quotes George Stigler: "...The courses taught under this heading have for their purpose the understanding of the structure and behaviour (sic) of the industries... of an economy" (643). In context, it appears "an economy" refers to the economic competition among organizations. Schmalensee remarks that Stigler "...went on to note that industrial

economics deals not only with theory but also with measurement and hypothesis testing and with the analysis of public policies toward business” (643). Additionally, Schmalensee notes that acquiring detailed data on “natural market experiments” is often difficult. Because of recent developments in computer capability, “realistic” experiments seem more possible, yet as Schmalensee declares, while “...laboratory research seems best suited for testing the predictive power and robustness of particular theories; it is less useful for determining the class of real markets for which particular theories are useful” (650).

Carl Shapiro (1989) sums up the reality of the market in practice and the notion of theorizing:

The fact of the matter is that competitive strategy in practice encompasses a wide variety of strategic and tactical decision making, from the pricing of products to investment in production and distribution facilities to contracting practices with customers and input suppliers to research and development expenditures. There is no reason to expect or strive for a single unified oligopoly theory that would deliver unique predictions to armchair theorists, independent of the particulars of how competition is played out in a given industry (126).

Further, Shapiro sees organizational behavior as similar to the theory of evolution in that in practice, organizations adapt to their environments in order to survive and to thrive. He notes that when the evolutionary theory is applied to individual species, it “...reveals a stunning diversity of tactics employed in different settings by different species” (Shapiro 1989, 126).

This theory appears to draw from reality. When applied to strategic organizational competition, it reveals an understanding of organizational behavior that regularly

includes the maximization of profits, an outcome that commonly guarantees organizational survival. Shapiro maintains that "...there is some pool of common knowledge about the environment that is shared by all participants. As with the theory of evolution, however, we see a striking diversity of available and adopted strategies when we look across different industries with different underlying structures" (126). This is a key point to understanding business competition. The strategies that are available and used are "within species" and are therefore more focused. This concept seems to indicate that organizations are better able to concentrate on specific aspects of self-interest when the pool of competitors is smaller, in other words "within species."

Not to be ignored in this brief history of economic thought is Milton Friedman and his influential paper published in 1953, *Essays in Positive Economics*. Friedman addresses the "objective" science of economics by noting that "positive" economics "...is, or can be, an 'objective' science, in precisely the same sense as any of the physical sciences" (146). Friedman's concept alleges that positive economics provides "...a system of generalizations that can be used to make correct predictions about the consequences of any change in circumstances" (146). Friedman quotes John Neville Keynes' (father of John Maynard Keynes) pithy account: "...it deals with 'what is,' not with 'what ought to be'" (146).

Focusing on "what is" seems appropriate for evaluating employee and overall organizational behavior since, as previously mentioned, economic forecasting is, or should be, a part of an organization's strategic business plan. And, even though Schmalensee tips his hat to improved computer capability and the increased ability to

create “realistic” experiments in the laboratory, he likewise concedes that factual information concerning real markets is how industrial economics aids business with predicting and forecasting business needs. Furthermore, Shapiro’s view of species relative to organizational competition can be seen as an example of dealing with “what is,” (factual) not with “what ought to be.”

Returning to Friedman (1953), he likewise addresses factual evidence relative to hypothesis: “Viewed as a body of substantive hypotheses, theory is to be judged by its predictive power for the class of phenomena which it is intended to ‘explain.’ Only factual evidence can show whether it is ‘right’ or ‘wrong’ or, better, tentatively ‘accepted’ as valid or ‘rejected’” (149). He adds: “Factual evidence can never ‘prove’ a hypothesis; it can only fail to disprove it, which is what we generally mean when we say, somewhat inexactly, that the hypothesis has been ‘confirmed’ by experience” (149). Friedman’s conclusion contrasts with the view of Schmalensee that improved computer capability allows for increased realistic experiments in the laboratory. Experiments can allow for apparent realistic economic predications; however, factual evidence, as Friedman notes, is the only way to confirm the hypothesis.

Additionally important is Friedman’s clarification that the phenomena used for prediction purposes are not necessarily instances that have yet to occur. He notes that “...they may be about phenomena that have occurred but observations on which have not yet been made or are not known to the person making the prediction” (Friedman 1953, 149-150). This allows organizations to use assorted *real* experiences, past or present, to assist in their strategic prediction and planning needs. Friedman (1953) asserts, however,

“... the relevant question to ask about the ‘assumptions’ of a theory is not whether they are descriptively ‘realistic,’ for they never are, but whether they are sufficiently good approximations for the purpose in hand” (153). However, we might question Friedman’s assertion that assumptions “never are” realistic. It seems likely that they are realistic if they are based on credible information gleaned from among the experiences of organizations in general and among individual employees in particular. In many circumstances “good approximations” may result.

To conclude this chapter and to prepare for the next, I would like to return to the main thesis of this paper. Recall the question at hand: Is it possible that the constraints brought about by ethical practices in the workplace conflict with the economic goals of the business? “Social corporate responsibility” has been seen by many as the ethical underpinning of business. Is there actually an obligation for organizations to be socially responsible?

Friedman (1970) asks a similar question:

The discussions of the ‘social responsibilities of business’ are notable for their analytical looseness and lack of rigor. What does it mean to say that ‘business’ has responsibilities? Only people can have responsibilities. A corporation is an artificial person and in this sense may have artificial responsibilities, but ‘business’ as a whole cannot be said to have responsibilities, even in this vague sense.

Friedman observes that the concept of “social responsibility” is most often directed at corporations. In a corporation, high-level executives oversee and ensure that organizational goals are followed and met. These executives are, however, employees of the owners; therefore, the executives are responsible for carrying out the wishes of the

owners. Many believe that the owners wish to "...make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom" (Friedman 1970). Friedman acknowledges, however, that some corporations are created for charitable purposes. In such cases, the corporate goal is generally not one of financial profit but one of providing specific services with any financial goals linked to providing the services rather than to maximizing profit. In either instance, we observe a clear application of self-interest from the corporation and the executive. The difference being that in all probability, the self-interest displayed by the charitable corporation is likely understood as "noble" by most casual observers while those same observers may interpret the profit gained by a non-charitable corporation as questionable, simply because it is "non-charitable." In both cases, however, self-interest is the motivating factor.

Friedman (1970) suggests that individual executives within corporations may wish to "...devote part of his income to causes he regards as worthy...." However, each individual has the right, and in some cases the responsibility, to respond to social and ethical impulses that are not related to work and that allow one to support his or her community. In such instances, the individual expends one's own time and money and is therefore considered an independent "principle," not an "agent" of a corporation. This differs from the example offered previously of the employee (acting as an agent) who fulfills his or her own professional self-interest while representing the employer. If the corporate executive acts in accordance with his or her personal views of "social responsibility" while concurrently acting as an agent of the corporation, the act may be



performed “...in some way that is not in the interest of his employers” (Friedman 1970). This action likely conflicts with the initial motivation of the stockholders who appointed the corporate executive as an agent to represent their interests.

Friedman (1970) suggests, however, that the interests of the corporation may not be what they appear: “Of course, in practice the doctrine of social responsibility is frequently a cloak for actions that are justified on other grounds rather than a reason for those actions.” It is possible that corporations may exhibit acts of social responsibility in the local community, especially small communities, as an act of self-interest. “In the present climate of opinion, with its wide spread aversion to ‘capitalism,’ ‘profits,’ and ‘soulless corporation’ and so on, this is one way for a corporation to generate goodwill as a by-product of expenditures that are entirely justified in its own self-interest” (Friedman 1970). How is one to interpret this type of behavior? It seems to be a win-win situation because goodwill within the community is generated while self-interest is, again, the motivator. Friedman believes that this method of cloaking social responsibility harms a free society. The rules of the game for Friedman are that businesses engage in “open and free competition” devoid of deception. Deception here appears to include the act of cloaking; therefore, open and free competition is denied.

On the other hand, Freeman challenges the assumption of “primacy of the stockholder” (38). Freeman believes it is possible to replace “...the notion that managers have a duty to stockholders with the concept that managers bear a fiduciary relationship to stakeholders” (39). The argument is one where we must consider all players (stakeholders) as essential to running a successful, ethical business. Friedman imagines

the end game for business as profit realization for stockholders; Freeman envisions the end game as benefits and profits spread among many, beyond those with a direct stake in corporate profits.

Freeman mentions that in recent history, the law of corporations has “...evolved to effectively constrain the pursuit of stockholder interests at the expense of other claimants on the firm” (39). In other words, claims of stakeholders, although still outranked by stockholders, can be given increased importance and consideration. Freeman believes that stakeholders, like stockholders, have the same “...right to demand certain actions by management...” (41). He appears to believe this because of the reciprocal relationship that exists between them. For example, the corporation and its suppliers assist each other to maintain a certain level of success. “When the firm treats the supplier as a valued member of the stakeholder network, rather than simply as a source of materials, the supplier will respond when the firm is in need” (Freeman 43).

In Freeman’s view, corporate management qua employee has a special role to play. It has the difficult task of looking “...after the health of the corporation, and this involves balancing the multiple claims of conflicting stakeholders” (Freeman 44). This is indeed a difficult task. Because of self-interest, each stakeholder wants something from the corporation and from each other. The owners want higher profits, employees want higher compensation and improved benefits, and customers want higher quality products and services. How can these seemingly conflicting interests create a successful business environment? And how can a business focus on ethical business practices while

balancing multiple self-interests where it seems likely that the self-interested parties cannot all be winners?

Friedman and Freeman have conflicting views relative to corporate social responsibility. Which view is the most reasonable or “correct” when considering the morality of business practices? Is either view correct? How does the concept of self-imposed choice constraints or “moral sentiments” described by Sen fit into the conversation about successful economic goals of organizations? In the next chapter, we will explore ethics in the business environment by focusing more deeply on the issue of self-interest by seeking to understand virtue, sympathy, and motivation.

## CHAPTER 2: UNDERSTANDING VIRTUE, SELF-INTEREST, SYMPATHY, AND MOTIVATION

It is important to investigate in depth the concept of self-interest to which I frequently referred in the previous chapter. Recall that Plato and Aristotle examine self-interest relative to bartering, commerce, and the acquisition of wealth, all while trying to maintain the “good State.” This includes, for Aristotle, the belief that wealth acquisition beyond household management is “not natural at all” (Aristotle 1998, 16, 1257b11). For Smith, however, wealth acquisition is a natural state of human behavior, a state that includes recognizing that self-interest is often included in the path to acquisition.

In addition, individuals within an organization desire to protect the interests of the organization within the market; therefore, they employ numerous strategies in order to do so. These strategies are carried out by the owners and employees who often have their own self-interest in mind. Evidently, self-interest is an extremely strong motivator within the business environment whether it is in the larger macro-economic or the more personal micro-economic environment. In either case, I wish to explore whether owners and employees seek to behave virtuously at moments when they are determined to act with self-interest. Perhaps business owners and employees wish their self-interested actions to be rooted in virtue to, at a minimum, shield them from external criticism as many people might interpret the self-interested behavior to be simply selfishness dressed up as virtuous

behavior. Or maybe they, like many, do not have a clear understanding of the definition and importance of virtue and in such instances virtue has no apparent connection to their self-interest. Nonetheless, it seems these individuals are most often motivated to act in their own self-interest even when confronted with requests or demands for responsible actions within the society. The following analysis begins with a focus on the notion of virtue as understood by Aristotle and Smith. Remarks relating to self-interest, sympathy, and motivation will follow and I will merge these views while bringing to light thoughts on corporate social responsibility.

Virtuous behavior is typically perceived as a positive character trait. To recognize whether virtuous character traits can assist in determining business and personal motives, it is appropriate to reflect on the subject of virtue ethics. It is important to understand what motivates business owners and employees to do what they do relative to their self-interest and to business strategy.

Robert Audi (2012) describes virtue from what appears to be a contemporary viewpoint:

To have a virtue is to have a praiseworthy character trait appropriate to pursuing the particular kind of good with respect to which the trait counts as a virtue. Take justice and generosity. For the former, the good in question concerns what is obligatory or permissible in a moral sense, as with a fair distribution of benefits to a company's workers. For the latter, the good is roughly enhancement of well-being (273).

This view, however, is not so contemporary. Audi reaches back into history to reference Aristotle in an attempt to clarify the statement through Aristotle's eyes. Audi (2012) explains that Aristotle perceives "...moral traits of character to be ethically more basic

than moral acts” (278). Apparently moral traits are the footing on which moral acts are built. Moreover, Audi remarks that Aristotle’s state of virtue finds its origin in the “mean,” a mean that is relative to each person. How does this concept of the mean relate to self-interest among people in business? I will explore this question in more detail shortly. In order to do so, however, I will use examples of common human experiences in order to recognize self-interested motivation within the context of Aristotle’s mean. I will insert the emotions of pleasure and pain into this discussion given that both emotions, without doubt, motivate all individuals to action (or inaction), and in our particular case, individuals in the business setting.

In several locations in the *Nicomachean Ethics*, Aristotle refers to pleasure and pain and the connection that these two experiences have to virtue. Aristotle considers it possible to achieve the characteristic of virtue (along with other characteristics) when one locates the mean between two extremes (of pleasure and pain in this instance). Can there be a standard experience known as virtue when dealing with pleasure and pain? Moreover, can a person balance the extremes of pleasure and pain in such a way as to maintain equilibrium between those experiences in order to define the characteristic as virtue? Perhaps balancing these experiences is not really the point. In other words, the goal is simply to work toward establishing and defining “virtue” for each person regardless of a consistent balance between the extremes of pleasure and pain. Can we ultimately determine whether each person is or can be motivated to search out his or her ideal mean? In doing so, we can establish whether acquiring virtue through this framework of self-interest produces an emotion that can be defined as motivation.

Aristotle sets up a dilemma regarding the experiences of pleasure and pain. He suggests that virtuous acts are pleasurable to the person performing them. In Book I, Aristotle (1999) states: “If this is true, actions performed in conformity with virtue are in themselves pleasant” (21, 1099a21). Yet, in Book II, Aristotle (1999) applies virtuousness to those who do not appear to experience pleasure during certain acts:

A man who abstains from bodily pleasures and enjoys doing so is self-controlled; if he finds abstinence troublesome, he is self-indulgent; a man who endures danger with joy, or at least without pain, is courageous; if he endures with pain he is a coward (36-37, 1104b5).

The second claim seems to fly in the face of the first by declaring that virtuous people may not necessarily experience pleasure (in this case the experience is absence of pain) even when performing acts that are indeed virtuous. This second claim seems to have merit. Erik Wielenberg (2000) states:

Virtue-related properties can apply to both persons and actions. There can be benevolent persons and benevolent actions, as well as courageous persons and courageous actions. More generally, the name of any moral virtue can be applied to both persons and actions (440).

It is possible for any virtuous person to perform a virtuous act and still feel a certain amount of pain, at least an appropriate amount based on the circumstances. For example a person may perform a virtuous act by giving money or needed physical objects to somebody who is in need. That experience can bring forth conflicting emotions related to both pleasure and pain. Pleasure is often experienced by the act of giving and pain can also be experienced by the giver when he or she recognizes the difficult situation(s) suffered by the receiver of the “gift”. Additionally, the giver may realize that by offering the gift, some level of dispossession will be experienced, therefore, producing some level

of pain. The pleasures and pains in this case are emotionally based (although the pain could manifest itself physically). An imbalance can occur here where the giver may not experience the same amount of pain as pleasure since he or she may not be as compassionate as someone who would experience more pain and less pleasure from the same transaction.

Aristide Tessitore (1996) delves into this paradox by focusing on Aristotle's concept of habit or practice: "...Aristotle explains the excellence of character, like excellence in musical performance, is developed through practice" (25). This seems quite rational to those of us who have developed our musical skills through the application of intense practice. Only consistent and thoughtful practice can develop excellence in any given skill, such as music. Aristotle (1999) explains: "For if they perform just actions and exercise self-control, they are already just and self-controlled, in the same way as they are literate and musical if they write correctly and practice music" (39, 1105a20).

However, how does this free Aristotle from the dilemma that is inherent in his argument? He seems to be arguing that a person can become virtuous by performing virtuous deeds. That assumes that the person performing the deeds already possesses the character of virtue. In addressing this, Aristotle considers virtue development to be different than musical development in that "...ethical virtue is not gauged simply by the final action but is also determined by the state of mind from which the action springs" (Tessitore 1996, 26). By addressing state of mind, Aristotle is able to eliminate the problem of having to possess virtue prior to the practice of it. It seems, by developing "correct opinion" and "proper education," and by forming habits around these concepts,



one can move more easily toward the development of virtue. Then, the *practice* of virtue can take center stage.

Aristotle's resolution makes sense, as intent and state of mind form the basis for the establishment of opinions and general understanding. Also, the understanding of external issues and, more specifically, individual internal understanding can give rise to the development of virtue, as virtue is defined for each person. Moreover, practicing virtuous activities is the same as practicing a musical instrument; the more one practices on a consistent basis, the greater is the development of the activity at hand. It is likely that with virtue, as in music, some individuals may have an innate ability to achieve higher levels of development through practice.

However, a problem arises. As Nancy Sherman (1989) asserts:

...even if we take up the more straightforward case of practicing a skill where there is some isolatable sequence of steps, repetition of that sequence cannot involve doing the same action, if by that is meant doing just what one did before. For repeating in that way seems to ensure that one will stay in a rut, do the same thing over and over again (mistakes included), rather than show improvement or progress. Indeed, it seems to make progress impossible (178).

Sherman's point here is that habituation without a specific goal is similar to a closed circuit where the energy expended moves through a continuous loop, never moving to the next logical step. "In each successive attempt, constant awareness of the goal is crucial, just at measuring how nearly one has reached it or by how much one has fallen short is important for the next trial" (Sherman 1989, 179). The idea, then, is that practice appears to be good and necessary in that one should expect to see *increased* virtuousness through practice and habit. Aristotle believes that virtuous acts are pleasurable to the person

performing them. That said, these same acts, because they are pleasurable will likely be repeated and the acts will reinforce the need for the person to continuously (habitually) perform them.

Would this then lead to Sherman's assertion that one must move forward out of the closed circuit? I say yes. Like most human experiences, the need for greater intensity of action and greater amounts of information leads to positive linear movement toward a specific goal, thus increasing one's pleasure and perhaps one's level of learning. Accordingly, the level of virtue relative to the activity would also increase.

As Sherman indicates, habitual behavior must also include increased learning in order for one to truly achieve the goal of virtue related to the habit. Howard Curzer (2002) states: "Now virtuous action is different in different situations, so habitually acting virtuously does not mean repeatedly doing the same thing, but rather it means repeatedly doing the right thing" (142). By saying this, Curzer appears to agree with Aristotle when it comes to performing virtuous deeds according to what I refer to as the "rights." We will discuss the matter of "rights" later in this chapter.

To this point, we have concentrated on virtue primarily from the standpoint of emotions and have not discussed physical pain to any great degree. One example of pain is addressed by Aristotle (1999) as it relates to the virtue of courage: "...men are called courageous for enduring pain. Hence courage is a painful thing and is justly praised, because it is more difficult to endure what is painful than to abstain from what is pleasant" (76, 1117a33). It seems that physical pain, for the most part, does not allow for the same type of balancing as does the emotional pleasures and pains previously

mentioned. There are some who find physical pain pleasurable; however, we can likely assume that this is an experience not enjoyed by most people. The acts performed where one experiences such “pleasurable pains” would, in most societies, not be considered virtuous acts.

Irwin Goldstein (1989) claims, however, that “...‘pleasant pain’ is a *mixed* experience containing both pleasantness and unpleasantness. ‘Pleasant pain’, like ‘hot ice’, is a complex idea signifying a paradoxical combination of opposing qualities” (263). This appears to muddy the waters since we are incapable of knowing the percentages of each part of the mixture. Therefore, we are unable to establish a balance between the two extremes of pleasure and pain in these instances since each person will have a mixture of the two that “works.” Although Aristotle’s concept of the mean originates from mathematics, Tessitore (1996) bolsters the concept of individual balance when applied to an ethical context: “As applied to ethics, however, the mean is not characterized by strict mathematical proportion but is ‘relative to us’ (*pros hemas*), in the sense that it is determined with reference to the particular capacities and limitations of the person undertaking any given action” (27).

As an example, how can we measure the pleasure that a masochist feels when self-mutilation is used to punish oneself? Most people would undoubtedly agree that the masochist is doing something “bad” and painful, yet, somehow the experience is pleasurable. I see little possibility that anyone can understand the balance between these two aspects of pleasure and pain. Yet, if according to the masochist, the extremes that are

experienced bring about the mean, how can we understand the activity or the person to be virtuous?

Consequently, how do we determine whether the pains and pleasures experienced are virtuous? Each person feels that some acts are virtuous while others are not. For instance, there are those who do not consider courage in battle to be a virtue, even if one loses an arm in the process. Yet the warrior may feel virtuous because of the courage and the loss. It seems that each person reveals his or her values to others by outwardly displaying pleasure and pain. This display could manifest itself in various ways – through speech or action – or through both.

This being the case, virtuous people can have fluctuating feelings relative to pleasure and pain while performing virtuous acts. How then, does one maintain the characteristic of virtuousness if the fluctuations create a situation where the mean is not established to any great degree? Aristotle (1999) addresses moral virtue:

...for it is moral virtue that is concerned with emotions and actions, and it is in emotions and actions that excess, deficiency, and the median are found. Thus we can experience fear, confidence, desire, anger, pity, and generally any kind of pleasure and pain either too much or too little, and in either case not properly. But to experience all this at the right time, toward the right objects, toward the right people, for the right reason, and in the right manner – that is the median and the best course, the course that is a mark of virtue (43, 1106b16).

Here, Aristotle focuses on the virtue of the mean by placing emotions and actions into the “rights.” If all of the “rights” must exist at any given time, virtue could materialize in such instances. Perhaps a majority of the “rights,” or at least a good amount of them could exist at any given time in order to assist with defining the mean. That mean could

be defined as a range within the extremes and not a mathematically precise point where each individual must land. For instance, there are various levels of the virtue of courage. Some people are more courageous than others and yet they are all likely to be considered virtuous. We have to *assume*, however, that that is what Aristotle's intent is in those instances. Christopher Warne (2006) addresses my concern: "Although Aristotle has told us virtues and vices appear in triads (intermediate flanked by two extreme vices), he has given us no criteria to determine which states are intermediate and which are defective" (49).

We return then to the concept that Tessitore alluded to earlier – understanding the "intermediate" through something other than mathematics. Warne (2006) explains: "...Aristotle identifies two senses in which something can be intermediate: (a) intermediate in the object and (b) intermediate relative to us" (47). In the first sense, we must understand intermediate from a mathematical sense – that something sits equidistant between two other things. For example, twenty exists exactly between thirty and ten; that is a mathematical certainty. However, Warne refers to Aristotle's (1999) explanation of diet relative to an athlete: "... if ten pounds of food is much for a man to eat and two pounds little, it does not follow that the trainer will prescribe six pounds, for this may in turn be much or little for him to eat; it may be little for Milo and much for someone who has just begun to take up athletics" (42, 1106b).

On the surface, this concept appears to make a great deal of sense. The mean, then, is relative to each person, so that there can be no specific *mathematical* "standard" that can be applied to all. Each person has his or her own standard on which actions must

be judged in order to establish one's individualized "virtue state." That state, however, can fall within a range that allows for various virtue states.

David Bostock (2000) questions this:

It was therefore somewhat misleading when he [Aristotle] characterized the 'mean' as 'relative to us' and 'not the same for everyone', and even more misleading when he went on to illustrate this with the case of the athlete's food intake. For what he actually has in mind is much better described not as a 'relativity to the agent' but as a 'relativity to the circumstances of the action' (41).

Bostock focuses on the action and not the person associated with the action. Although we should focus on actions, our *primary* focus must be on the person performing the action.

If it is not, then we lose sight of our goal, that of determining the mean relative to a person, not an action. However, an action such as courage (a virtue with various levels of achievement) allows us to understand the concept of a range between extremes.

It seems then, that there is a "standard" that a person can set that ultimately results in Aristotle's definition of "virtue." The actions of each person are relative to him or her and since actions that produce pleasure and pain (either emotionally or physically) are specific to the person, every situation in which he or she experiences pleasure and pain is unique. However, this uniqueness does not eliminate the setting of a standard among the general population. Pleasures and pains fluctuate for each person and for each action performed by that person so that a unique standard is set that determines how each person is able to attain Aristotle's definition of virtue – relative to oneself, and to others who fall into the range.

In addition, it is impossible to maintain mathematical equilibrium between the extremes for any given person during any given act. Balance between the extremes is temporary and fluid. The experiences of pleasure and pain push and pull against each other and move the “virtue line” toward one of the extremes. This experience of pushing and pulling must be what establishes the state of virtue of which Aristotle speaks. The experience is one of a “mini-battle.” Life for each person thus consists of thousands of mini-battles that establish multiple virtuous acts. As the battles progress, virtuous acts become more or less virtuous, or lose the status of virtuousness completely if pulled too far to either extreme.

It is fitting at this juncture to examine the concept of virtue from the viewpoint of another philosopher and another moment in economic history. In the previous chapter, I referred to Smith’s work *The Wealth of Nations*. Smith is, however, well known for another work, *The Theory of Moral Sentiments*. In *The Wealth of Nations*, Smith addresses self-interest and seems to be, as Ralph Anspach (1972) says: “...a fervent believer in the power of self-interest, if not selfishness, as the dominating force in human affairs” (176). Many economists agree with this description; however, many others, including historians, perceive a conflict between the two works. Smith is one of many philosophers who refers to himself as a “Sentimentalist.” Smith and others, including David Hume, feel that sentiments, or feelings, are the distinguishing mark of human beings, not reason. Hume argues that by nature, the human being is a social being and because of Hume’s belief, “...society has its origins in instinct and feeling and not in

intelligent self-interest as was argued by rationalists like Hobbes...” (Anspach 1972, 177-178).

Interestingly and perhaps not coincidentally, Smith justifies human conduct based on sensations of pleasure and pain and the feelings that are aroused by these sensations. Smith believes that human beings, in an attempt for self-preservation, naturally seek out pleasure and reject pain. Anspach notes that a simple example is found in *The History of Astronomy* where Smith relates this concept to the pleasure of eating when one feels the pain of hunger. This is one of the most basic instances where individuals are motivated to act in a manner that increases pleasure and alleviates pain. How much more so would individuals be motivated by economic gain and the ultimate pleasures (and pains) associated with that gain.

Smith’s use of eating as an example of pleasure is no accident. The purpose of it allows him to establish the concept of individualized, isolated pleasures. Along with this example, he is able to craft two additional arguments about pleasure that “...involve a fellow feeling, or ‘sympathy,’ for others and hence depend on social interaction” (Anspach 1972, 180). The first type of sympathy involves a direct interaction. Smith (2009) states:

Upon some occasions sympathy may seem to arise merely from the view of a certain emotion in another person. The passions, upon some occasions, may seem to be transfused from one man to another, instantaneously.... Grief and joy, for example, strongly expressed in the look and gestures of any one, at once affect the spectator with some degree of a like painful or agreeable emotion. A smiling face is, to every body (sic) that sees it, a cheerful object... (15).



In other words, sympathetic sentiments, whether pleasurable or painful, can manifest themselves immediately upon observing the emotions of others. During happy moments, a smile can produce pleasure on the part of the viewer. Conversely, the reader may recall moments of empathy with a loved one when tears flowed and the reader's emotions were likewise stirred.

The second type of pleasurable sympathy based on social interaction is more complex than the previous example and it will not be discussed in detail here. Briefly, this type of sympathy is grounded on two reciprocal interactions. The first interaction is very similar to the observed emotions just described. There is in this case, however, recognition by the observer that the responding emotion often differs by degree. The second interaction involves the realization of action by the observer and the subsequent observation of pleasure experienced by the recipient of the action. Smith seems to use these interactions to rationalize the morality of interactive behavior. Anspach (1972) explains: "...the *self* as observer endeavors to raise its fellow feeling for the *other* who is experiencing some original sensation. This generates the humanitarian virtues" (181). It is noteworthy that Anspach uses this moment to introduce the term "virtues" to the discussion. Apparently, virtue is seen, in this example, as a product of interaction. This is not so different than Aristotle's approach; however, the example here brings forth a greater degree of personal interaction.

Smith uses this concept of "pleasure generating sympathy" as a method to refute what he sees as self-love as a facilitator of human behavior. Anspach is careful to note that Smith distances himself from the concept of self-love, or "selfishness," and in doing

so Smith confirms that sympathy cannot be understood by someone who had not had social contact during his early childhood. Finally, Smith observes that because the emotion of sympathy often arises suddenly and during inconsequential moments, it is obvious that the emotion cannot be derived from self-interested intentions. In other words, there is not enough time to establish self-interest in such instances.

Some commentators see an inconsistency between Smith's arguments presented in both of the works mentioned. Sen observes, however, that there is a "pervasive interdependence" between the two books and Sen understands that many people question why Smith seemingly abandoned his original position when he authored *The Wealth of Nations*. Sen believes, however, that Smith did not forsake his perspective in the *Moral Sentiments* and, in fact, continued to expand on the concepts first presented by continuously revising the text through six editions. Sen observes, "...Smith's first book, the *Moral Sentiments*, was also his last, in the form of the much expanded sixth edition" (Smith 2009, ix). That being the case, *The Wealth of Nations* was sandwiched in between the six editions and it allowed Smith the opportunity to use both works to influence over time the arguments in each. Sen effectively explains how both of Smith's arguments for human motivation fit appropriately into our subject:

In each book Smith talks about a variety of human motivations, including both sympathy and self-love, and also many other concerns that drive human beings. If self-love is of special relevance in seeking some particular explanation – for example, why people seek trade – then other motivations have important roles in explaining other types of choices – for example, work discipline and commitment to obeying good rules and to treating others with respect and honour (sic). The role of self-love in explaining particular economic phenomena does nothing to reduce the

relevance of different motivations in the understanding of other economic regularities (Smith 2009, ix).

We can now more easily appreciate Smith's notions related to motivation and virtue. Smith seems to follow Aristotle's lead when identifying virtue. He indicates that we are able to understand our actions by observing or experiencing their consequences. According to Smith, it is our ability to reason that allows us to understand the beneficial or harmful results produced by our actions. For Smith, this appears to be a break from Hume and a nod toward a more rationalist, Hobbesian view. Moreover, it is Smith's understanding of "self-command" that allows us to breach the subject of virtue; that position is analogous to Aristotle's balancing act that I described previously. Smith (2009) states that self-command is one of our most useful qualities:

...self-command, by which we are enabled to abstain from present pleasure or to endure present pain, in order to obtain a greater pleasure or to avoid a greater pain in some future time. In the union of those two qualities consists the virtue of prudence, of all the virtues that which is most useful to the individual (220).

Prudence, therefore, is the most "useful" virtue to individuals. Prudence is more than that, however. Smith (2009) clarifies: "The man who acts according to the rules of perfect prudence, of the strict justice, and of proper benevolence, may be said to be perfectly virtuous" (280). The important detail to notice is that Aristotle and Smith locate perfect virtue within the vast expanse between the extremes of pleasure and pain. Smith's perfect virtue, just like that of Aristotle's, cannot be mathematically standardized. Smith similarly relies on each individual's actions to establish interactions with pleasure and pain that are unique to each person, yet fall within a range that is defined as virtue.

Having assessed Aristotle's and Smith's views of virtue, we can now revisit the fundamental question about whether owners and employees are motivated by their self-interest to generate experiences and emotions that yield virtue through the establishment of the Aristotelian mean or the Smithian notions of self-command and prudence. Based on what we have discovered so far, groups of individuals within a single work environment can, potentially, establish a universal mean (if they are within the virtuous range between extremes) therefore, a universal definition of virtue can potentially exist. Each person is challenged and motivated by specific pleasures and pains, and virtue may or may not be determined for each person. This does not suggest, however, that each individual is not motivated by the emotions and events that cause one to feel pleasure or pain, quite the contrary. It seems that human motivation is likely based on emotions or physical experiences such as those that we have discussed up to this point. There is no reason to believe that our discoveries here have lessened that fact. The idea that individuals are motivated to act in self-interested ways seems undeniable, especially when desired goals can be reached by doing so. To a certain degree, the Hobbesian view fits here. Even when we live with a level of objective morality, a condition Hobbes denies, and we wish to have feelings of sympathy for others, the tendency to be self-interested is often too strong for most individuals to control. Thus, within the workplace, we may or may not reach the standard of "virtue" set by Aristotle and we may struggle to gain an understanding of how to effectively put into practice sympathy as described by Smith. Perhaps a discussion about American business values will assist in determining if we can indeed apply these concepts of virtue to the workplace.

Gerald F. Cavanagh (1990) observes that from an American perspective, “[t]he predominant business ideology in the United States holds that when firms and individuals pursue their own self-interest, market forces and the ‘invisible hand’ [self-regulation of the market] bring about the most efficient use of resources and result in the greatest satisfaction of people’s needs” (24). Indeed, this ideology has worked well for many years in the United States. I have argued that individuals mostly act in their own self-interest. Although acting in one’s self-interest has historically been harmful to some in the society, the positive characteristics of the behavior have helped craft a creative free enterprise system that has successfully sustained the American economic system.

Regrettably, various harmful aspects of self-interest have appeared throughout history. During the industrial revolution in the United States, sweatshop-type facilities focused on arduous manual production and these facilities employed adults *and* children in order to accomplish the task. Long hours were required of workers by business owners, greatly benefitting the owners financially while allowing workers to perhaps barely survive financially. Additionally, the employees were exposing to various physical hazards. More recently, many argue that organizations ignore factors such as the environmental impact of their production facilities on the local and regional environment. This may occur because of organizational self-interest and the lack of interest attached to socially responsibility actions that are not required by regulation. This issue may not be as sinister as it seems, at least from the viewpoint of organizational interests and goals. Despite the fact that there are perceived harmful side effects to self-interest, there are those who defend the practice and they “...have responded by maintaining that they

speak of ‘enlightened’ self-interest, that is, self-interest taken over the long term” (Cavanagh 1990, 25). This type of self-interest can benefit the organization as well as the community. For example, from a long-term perspective, it is in an organization’s self-interest to create a loyal customer base by producing high-quality products. It is also in the organization’s self-interest to create a safe and satisfying work environment, not only to show consideration to its employees, but also to retain good employees.

Cavanagh (1990) proposes another example that potentially alters our understanding of business self-interest: “Contributions to universities are justified because graduates will benefit the firm’s community and the firm itself” (25). This example illustrates how self-interest and socially responsible actions can merge to improve the economic status of the organization while simultaneously contributing to the community. It is also, of course, a method of advertising that is used to build a positive brand in the marketplace. In such instances, the results of self-interest are viewed in a positive light, even though the action may not appear to the casual observer as grounded in self-interest. “Corporate social responsibility,” as this type of act has come to be known, is not only a buzz phrase within the business world, but has evolved into a fashionable business goal that embraces the interests of the stakeholders as well as the standard stockholder interests. Organizations, as much as they can outwardly act in the interest of the community, still act, on the whole, within a self-interested framework, one where the bottom line is *their* bottom line, not the community’s bottom line.

An organization surely questions its level of commitment to this mixed concept of company goals and community needs. It can be challenging to combine the goals of the

organization with the needs of the society when existing internal structures and systems have previously precluded social concerns. Moreover, an organization must question how expenditures that focus on social responsibility initiatives can and will impact the initiative and more importantly, the short-term and long-term profitability of the organization. Can these two goals be balanced so that the outcome is a win for both the organization and the society? Can the outcomes be measured in any reasonable way? Organizations already have the ability to measure expenditures and revenue; however, they should also measure the positive and negative impacts of their social actions.

Corporate social responsibility may be, at least partially, a response to corporate social *irresponsibility*. Tensions likely exist between organizations and multiple societies because of events that might occur from market globalization. Examples of this can include government and business-related corruption in transitioning and developing economies, and business scandals in various countries. Owners and managers must grapple with these sorts of issues by either voluntarily jumping into the corporate social responsibility pool or by arguing that they have no business justification for becoming involved with social issues. In either case, controversy abounds when considering the suitable societal role for business.

There is an argument to be made for corporate social responsibility that goes beyond the “feel good” approach to a method that appreciates the legal angle:

The core case for corporate social responsibility argues that businesses have powerful positive and negative effects on their stakeholders, the societies in which they operate, and the natural environment. Power to do social good or bad implies corresponding social responsibility. This core case combines arguments *against* corporate misconduct and arguments *for*

expansion of the social role of business beyond simple compliance with criminal law (Epstein 2006, 32).

Businesses and the individuals within those organizations have a duty to follow the existing laws wherever the organization is conducting its business. It is generally acknowledged that the process of profit maximization creates instances where management ignores the law and disregards ethical standards. It is necessary on these occasions for managers to stand up to business pressures and to maintain strong moral positions on their legal and business-related responsibilities. If an organization can act as a good citizen while maintaining and not necessarily surrendering profits, then perhaps such actions can be defined by another sense of duty: moral duty. It is likely that societies and stakeholders expect and perhaps require organizations to behave ethically, and by doing so, to reach beyond simple legal requirements and to sacrifice profit. Many organizations likely agree with this to a point; however, the loss of profit must surely be seen by them as a non-starter in numerous instances. The argument, then, is not related to legal compliance but to the limitation imposed on expected moral duties.

For example, one increasingly popular social focus is sustainable development, or as it is more commonly termed, “sustainability.” This concept refers to “...initiatives and practices that seek to protect the environment, bolster economic prosperity and improve quality of life” (Epstein 2006, 59). These initiatives include concepts such as clean technology (e.g., wind power and solar panels) and “green” building products that emit little to no toxic fumes and can be recycled or reused in the future. Although the thought of using a reduced amount of electricity and not smelling formaldehyde in one’s newly



renovated building is appealing, the bottom line for many organizations is likely to focus on profit and not external social issues. The concept of self-interest again emerges into this argument as it has so many times previously. If sustainability is to be more than a feel-good fad, the projected results must convince owners and managers that integrating sustainable business practices into the daily functioning of the business will assist in reaching the desired, self-interested organizational goals. If an organization can successfully combine its economic, environmental, and social needs into an economic “win” for the organization, it is likely that investments will be made to do so.

This is not an easy task. An organization will in all probability conduct a cost and benefit analysis to determine the feasibility of the plan. If the cost is too high and the ability to measure success is too low, the project may never get off the ground. Merely the cost of an analysis might prohibit action on the project. However, if government regulations are used to coerce an organization to adopt a sustainability plan, the cost to do so may cut so deeply into the profit margin that the structure of the organization may be altered to accommodate the policy or the operations may cease completely.

A question arises about the perception of minimum and maximum corporate social responsibility. Does the minimum begin just beyond legal compliance? This seems to be a likely minimum limit; however, human nature being what it is, it may well be expected that the maximum moral standard increase over time. Where does the maximum level of responsibility end? “Activists – on environmental, human rights, and labor issues, for example – can and do make demands on corporations that are both unreasonable and infeasible... businesses may view any extralegal responsibility as a

slippery slope into ever worsening requirements” (Epstein 2006, 40). In such cases, organizations will intentionally maintain a minimum responsibility response with the intent of distancing itself from the edge of the slippery slope, if possible. In such cases, social responsibility is perceived as a burden and as an action to be limited to protect the financial and social prospects of an organization. Here again, organizational motivation is rooted in self-interest, and perhaps rightly so. Self-interest may, in many cases suggest self-survival.

The argument critical of corporate social responsibility is at times founded on the often debated fiduciary responsibilities of management:

Any voluntary assumption of further corporate social responsibilities by management is then purely discretionary altruism equivalent to ‘theft’ (that is, appropriation) of wealth from the other primary stakeholders of the firm (customers, employees, and share owners) on behalf of someone else. Corporate managers practice such discretionary altruism out of personal self-interest or intellectual confusion (Epstein 2006, 33).

A fair argument; however, one that can easily be challenged by those who believe that capitalism is immoral and corporations are selfish and greedy. The argument against corporate social responsibility must offer up facts about how business operates qua business and can therefore rationally justify the alleged lack of “compassion” displayed.

It is perceived by some that corporate social responsibility may harm business competition and that it “...has become a religion filled with priests, in which there is no need for evidence or theory. Too many academics and business managers are satisfied with the ‘good feeling’ as argument” (Epstein 2006, 41). In such cases, it may be that social responsibility issues are driven primarily by the subjective beliefs of the

organization's owner or of top management. The argument that corporate social responsibility harms business is founded principally on economics and minimally on sensitivity to social issues. Compliance to law, public policy, and "customary" ethics is expected, and sensible yet limited altruism is the rule. The bottom line is that "...the 'business of business is business'" (Epstein 2006, 41). Ironically, this case is grounded in utilitarianism. The notion is that markets that operate with little social, political or legal regulations are able to amass more wealth more quickly than markets that are more heavily controlled. Because, according to this argument, the first obligation of an organization is economic gain, if that gain is not realized, one can conclude that the organization has wasted the valuable resources available to it through the societies in which it operates. Many, though, will conclude that this indicates that a socially irresponsible posture has been taken by the organization, regardless of the unquestionable waste of social resources.

Because the business of business is business, it is hard to imagine that an organization will not focus primarily on the self-interest of the owners and upper management (i.e., profit and profit maximization) before taking into consideration social goals such as sustainability. If, however, socially responsible activities can improve the bottom line, the likelihood of an organization becoming involved in such activities is heightened.

The discussions about virtue in this chapter illustrate how we might understand the attainment of virtue through self-interest. If individuals or organizations find that pursuing the path that Aristotle blazed to discover virtue results in the fulfillment of goals

and the realization of virtue, the underlying self-interest will undoubtedly motivate them to continue to seek out Aristotle's virtuous path. If, however, self-interested goals are not reached through this process, the effort will be focused elsewhere.

This is not necessarily good news for Smith. Although he is a believer in the power of self-interest, he also considers sympathy to be a motivator that increases social interaction. That being the case, the potential for greater social action in his scheme exists. An organization, then, may turn against Smith's ideas if it cannot demonstrate the attainment of its goals. As noted, the primary goal is likely profit; however, socially responsible acts are advantageous if they can aid in generating that profit. If an organization can secure a profit while also putting an end to polluting the Chesapeake Bay, it will likely consider the situation one where the organization and the society both succeeds; the organization's self-interest is also the self-interest of others. The long view, however, is aimed at organizational profitability and survival. In the majority of cases, the inherent motivation of financial self-interest will prevail over the Bluegill and the Osprey.

### CHAPTER 3: CULTURAL INFLUENCES AND THEIR EFFECT ON ETHICAL BUSINESS PRACTICES

In the previous two chapters, I addressed ethical business practices primarily from an American perspective. Sen (1997) understands that culture can make a difference in regard to the ethical practice of business: “The world in which we live is very mixed, and our sentiments, principles, passions and irritations come in many shapes and forms” (6-7). Each region of the globe has its history and its resulting culture. The inherent differences in culture give rise to a range of behaviors that demonstrate the strongly held beliefs and values of each population. Sen notes that these cultural mores are not fixed; they change over time, often because of localized economic, political and social events. Geert Hofstede (1984) defines culture as “... the collective programming of the mind which distinguishes the members of one human group from another” (21). Although Hofstede admits that this is not “a complete definition,” it defines what he has found to be true according to his research. In the sense in which he views culture, it “...includes systems of values...” (21). Hofstede utilizes the term “culture” to identify societies in general along with the subcultures that frequently exist within these societies. I will follow Hofstede’s model by applying the term “culture” broadly to the society in which an organization resides, as well as to the subculture within global organizations. In this chapter I will examine how various methods of ethical standards and practices within

global organizations are influenced by local, cultural values. I will specifically examine how multinational enterprises (MNEs) contend with establishing meaningful and appropriate ethical policies and practices while balancing multi-cultural locations and workforces.

One method used to evaluate the criteria by which managers within organizations handle business practices, specifically ethical systems, is to examine how global organizations approach ethics while managing strategic alliances and global networks. Ashay B. Desai and Terri Rittenburg (1997) understand that "...there is a great deal of conceptual ambiguity about what 'global' ethics really means" (791). However, they observe that global ethics is, and will continue to be an "expansion" of ethical behavior that is gleaned from diverse societies. Additionally, Desai and Rittenburg explain that multinational enterprises (MNEs) may be the best environment in which to acquire knowledge about international ethical standards because of the MNEs contact with different cultures and settings. Donna J. Wood et al. (2006) explain more precisely:

Multinational enterprises are not bound by the rules of a single community, but are challenged to deal with differences among community norms, rules, and performance expectations. The traditional view is that corporations should conform to local practice by always following local laws and customs – 'when in Rome....' An alternative view has emerged over the past quarter-century that companies should apply uniform policies across their worldwide operations. Both of these approaches have weaknesses, but together they contain seeds of an optimal hybrid strategy (46).

Problems related to this line of thinking, however, are addressed by Gary R. Weaver (2001): "...ethics initiatives and programs often seem characterized by the application of American practices to non-American situations" (3). Weaver explains that

MNEs are often encouraged to abide by American-style ethical practices. For instance, MNEs may employ a variety of formal programs aimed at ethical practices such as ethics committees, ethics hot-lines, and strict monitoring of compliant and non-compliant ethical behavior on the job. The infusion of these American-style practices may, however, impose a policy structure that is “culturally alien,” and may therefore introduce practices that conflict with the intended ethical objectives. Weaver observes that non-U.S. organizations tend to trail behind the United States in recognizing formal ethical practices: “But does the lag constitute an unfortunate delay or the wise avoidance of a culturally inappropriate ethics initiative?” (Weaver 2001, 4).

American and non-American ethics initiatives have the potential to align and complement each other. However, different cultures maintain diverse views on the role of management; therefore, specific management practices may not be accepted universally. It is important to note that managers, as leaders, often set the moral tone within the workplace. When working within a global, multinational setting, they may not understand how to adapt to and implement ethical standards into the overall strategic plan. Even if the end goal of a specific management practice is, in theory, accepted by each applicable employer location, there is no guarantee that cultural patterns of behavior will easily change to accommodate the new, universal practice. Weaver (2001) understands this issue from the viewpoint of achieving the ends: “...for *even if* all cultures agreed regarding the substantive content of morality, there could remain cultural differences regarding how best to achieve those substantive ends” (4).

These cultural differences are stark; for example, understanding the distinctions in relation to collectivist and individualistic viewpoints is significant when creating ethical guidelines. Individualism focuses on personal ends; therefore the authority of collective action is diminished. Collectivism is the counterpart: “In collectivist societies, self-identity is *constituted* by the group, and in-group/out group distinctions are an important part of one’s understanding of the world” (Weaver 2001, 6).

There are numerous differences in how individualists and collectivists approach human interaction. Individualist cultures are comprised of people who see themselves as autonomous entities. According to Weaver, the bonds established between individuals may be more plentiful in individualist cultures than in collectivist cultures; however, the connections are often weaker and short-lived. Individualists apply direct interaction when handling conflict and, because of the inherent competitiveness in this culture, approaches used to handle conflict are often adversarial.

On the other hand, collectivist cultures comprise individuals who participate communally, thereby creating relationships that allow for “in-group cooperation.” Members of this culture shy away from conflict; however, if conflict arises, they are likely to deal with the issue privately, thereby avoiding discord among the group. “Harmony, face-saving, and the fulfillment of others’ needs are crucial to collectivists...” (Weaver 2001, 6). Because members of collectivist groups wish to maintain harmony, they are often more compliant when responding to the business requests of the organization. Collectivists wish to maintain a sense of equality among the group. They



will generally rank that feature at a higher level than equity. In direct opposition, individualists believe personal accomplishment trumps equality.

Because motivation and action is so dissimilar among individualists and collectivists, the application of American-style ethics management can potentially create confusion within global organizations. For example, American individualized incentive and punishment programs are likely inappropriate when dealing with cultures that are primarily collectivist. Weaver (2001) suggests:

Given collectivists' motivation by internalized group norms rather than self-interest, typical American punishments and rewards may have little effect in collectivist settings, and may turn a focal individual either into an unproductive outcast (in the case of individualized rewards), or into a martyr who serves as a catalyst for hostility (in the case of individualized punishment) (6-7).

The acceptance of an ethics program where either of these outcomes exists likely damages and hinders its application since employees with collectivists leanings (and perhaps individualists, as well) interpret the process as confrontational. Among collectivists, the key is to refrain from disrupting the harmony among the group. When specific individuals are criticized and accused of an unethical action, the group is potentially polarized.

External consultants are often used at individualist organizations. Outsourced private investigators or security companies are employed to contend with the ethical concerns of employees, often through the use of a toll-free number. Outsourcing this function in this manner can be efficient and effective in individualist cultures; however, as already noted, this type of strategy would likely be ineffective in a collectivist setting.

Collectivists are more apt to concentrate on the interactions and opinions of the internal group members to solve internal ethical complaints than to seek the council of sources external to the group. Ultimately, MNEs will struggle with the reality that home-grown organizational cultures will need to be revised to fit into the predominant mandated culture (e.g., American-style), or, if allowed, each organizational location must grapple with its own choice of culture. Hofstede (1984) sums up the problem: “The United States is the major exporter of modern organizational theories, but its position of extreme individualism in comparison to most other countries makes the relevance of some of its theories in other cultural environments doubtful” (154).

Another element of organizational culture is the applied characterization of femininity and masculinity. “The duality of the sexes is a fundamental fact with which different societies cope in different ways...” (Hofstede 1984, 176). These differences manifest themselves within a culture by exhibiting traits that are generally connected to one sex or the other. For example, masculine cultures place importance on aggressiveness, determination, performance, and the attainment of goals. Feminine cultures focus more intently on the needs of people, concern for others, and interdependence. These manifestations suggest that masculine cultures may require more highly regulated governance related to ethics because of the focus on goals and performance above people and relationships. It is likely that unethical behaviors will occur with greater frequency and intensity triggering an additional focus on ethics policies and procedures which may include punitive action.

In Hofstede's (1984) opinion, "[j]obs are given stereotypes of being 'masculine' or 'feminine' but these may differ from one country or even organization to another and over time..." (182). In contemporary organizational settings, this stereotype is true, at least to a certain extent. Because jobs are often still allocated in this manner, the sum of masculine and feminine jobs likely results in a culture that reflects the prevailing sexual representation. That said, Hofstede's point is valid, that the job stereotypes will differ over time from country to country and organization to organization. This, again, creates a condition where inconsistency regarding ethical rules and regulations exists among MNEs.

Hofstede identifies and describes "power distance" as another aspect of organizational structure. This issue is one of inequality. Societies place varying levels of importance to inequality associated with authority, affluence, and reputation. Within the business context, the inescapable consequence of employing this theory is the often observable hierarchical relationships between superiors and subordinates with which we are all familiar. Hofstede (1984) notes that according to one theory, "... subordinates will try to reduce the power distance between themselves and their bosses and bosses will try to maintain or enlarge it" (65). When the power distance is substantial, those at the high end of the hierarchy are perceived as entitled to organizational authority. Along with that power, however, comes culpability. When the power distance within a culture is slight, inequality is lessened, roles become more similar, and the culpability factor is spread among many within the organization.

From the standpoint of ethics, Weaver (2001) explains:

Insofar as power *and* responsibility rest on upper echelon managers (i.e., high power distance), ethics initiatives which, in American fashion, focus on *all* organizational members will be culturally illegitimate, and like other illegitimate practices may be ignored or may generate dysfunctional results (e.g., hostility) (9).

In circumstances where an American-style egalitarian policy is established in an organization that exists within an overall high power distance culture, responsibility could be mistakenly understood. The dysfunctional results can convey the perception to the lower and mid-level employees that top tier managers are avoiding their responsibilities. Moreover, even with the majority of the power spread throughout the organizational structure, the employee population may be reluctant (because of their high power distance cultural inclinations) to question requests “from the top” that involve performing unethical actions. They may feel powerless to question the requests and it is likely that top tier managers who might possibly ignore the American-style policies will undermine employee attempts to question their authority. Ultimately, MNEs located in locations where the culture is steeped in substantial power distance, will need to focus more intently on the ethical behaviors and policies created by upper level management.

An important aspect of this analysis is how ethics practices and policies are communicated within an organization and within various cultures. Weaver (2001) explains: “Persons whose outlook and identity are strongly tied to others may prove highly attuned to multiple forms of communication from other people, while those with weaker social ties may be less attentive to subtle messages and cues from others” (7). Individuals who enthusiastically communicate with several people during the workday and who use numerous types of communication devices to do so, learn to appreciate and

understand “contextual clues.” Essential information can be gleaned from the various gestures, glances, and sounds that emanate from each individual during the act of communication, regardless of the device used. However, face-to-face communication offers the greatest opportunity to garner important information relative to these contextual clues. Weaver identifies this as a “high context” setting.

In societies where weaker social ties exist, a reduced amount of information is gathered while communicating. In these cultures, communication is based largely on written and spoken *media* within what Weaver refers to as a “low context” environment. In low context environments, the people involved see or hear only a percentage of the full message. Conversely, individuals living in “high context” cultures are able to appreciate the complete message because they experience the contextual clues.

High and low context environments are fundamental to the effectiveness of ethics policies and practices. In cultures where communication is considered low context, the most effective means to convey an ethics policy is through observable, written documents using specific language. Good examples of this are the use of employee handbooks and codes of conduct. Weaver (2001) observes: “Such explicit formalism will be legitimate (for they communicate in culturally appropriate fashion), and probably better understood (thereby contributing to ethical behavior)” (7-8). The opposite is potentially true in high context environments. Formal written documents may be seen as overly dictatorial or perhaps even condescending. If this is the case, ethics programs can be ignored and if so, will likely be unsuccessful.

Hofstede identifies another element of domestic culture as “uncertainty avoidance.” This element is derived from the uncertainty of future events with which individuals and organizations try to recognize and cope. This uncertainty can be decreased when people and organizations use religion, law, and various types of technology as described by Hofstede (1984): “Technology has helped us to defend ourselves against uncertainties caused by nature; law, to defend against uncertainties in the behavior of others; religion, to accept the uncertainties we cannot defend ourselves against” (111). These tools assist in avoiding uncertainty; therefore, it is likely that complete certainty is an almost impossible outcome.

Uncertainty avoidance is significant because we can apply this concept to different societies and cultures. Societies manage uncertainty by adhering to their cultural traditions. It is often the case that traditions are transmitted and strengthened similarly in various societies by family, educational institutions and government entities. This assumes that members of a particular society understand and employ their traditions in a similar manner. If so, this can lead to a collectivist understanding of values within one culture that may be misinterpreted or just inconceivable to another culture.

Within the organizational context, high levels of uncertainty avoidance often reveal the need for policies and procedures that assist in stabilizing or minimizing many of the influences of uncertainty. In such cases, however, ethics programs that are seen to be mysterious in nature will likely be challenging to implement and manage because of the inherent vagueness of the program and the unknown nature of the results. On the other hand, ethics programs that are visible and comprehensible will undoubtedly

diminish uncertainty and will bolster the status of the organization in the eyes of their employees. Employees in low context cultures will probably embrace this action with more enthusiasm than employees working in high context environments. This does not mean, however, that organizations should not create written ethics policies and procedures that are openly discussed. Written ethics policy manuals or ethics policies that are included in an employee handbook are appropriate in these instances. The bottom line for uncertainty avoidance is to demonstrate that concrete steps are being taken to reduce uncertainty.

These various elements of culture must be instituted and studied over time in order to provide an organization with reliable location-specific data. These data must indicate how each element performs within any given worksite. An organization should know which practices increase or decrease ethical efficiencies within any given cultural environment. Moreover, the organization-wide ethics goals need to be achieved while constantly trying to balance the cultural needs of each location. Managers must understand that the culture within their specific work location is composed of unique combinations of the cultural elements described. Ethical practices can be encouraged by understanding which elements fit appropriately within each culture. Weaver (2001) submits an example:

...Japan combines high levels of uncertainty avoidance with a collectivist outlook. The high uncertainty avoidance might suggest an emphasis on highly formal, visible ethics initiatives, yet collectivism suggests that direct, formal approaches to fostering ethics potentially are problematic. Managers, thus, will need to address the question of how to encourage ethical behavior in organizations under different configurations of cultural characteristics (12).

An organization will need to juggle these various cultural characteristics at each work location while simultaneously trying to maintain ethical policies and practices that are designed to achieve the goals of the overall organization.

Although this would seem to be an impossible task, Weaver observes that research indicates that cultural flexibility can and does exist in such situations. The influence of one's culture can be limited. Individuals will adjust to environments where multiple cultures exist because they are able to set aside their usual cultural behaviors. This may not be the expected response in such situations; however, the research that Weaver cites suggests that it is a naturally occurring phenomenon. Furthermore, the research shows that when individuals connect with others who are members of the same culture, they can easily return to their social standards.

This is good news for organizations that introduce ethics programs that are culturally "alien." If organizations make it clear to their employees in multiple locations that the new ethics program originates from an "alien" source, such as the American headquarters, they may find that the program is accepted more readily by the employees. The employees might feel that they can relate to an alien program that is well-written and well-managed rather than a program that contains familiar cultural aspects but has the feel of a half-hearted attempt at a cross-cultural program.

This concept will be more or less successful depending on the acceptance of the organization's established subculture and the subculture of the various worksite locations. We can consider the local subcultures to be "sub-subcultures." Each organization has,



generally speaking, a subculture that can be considered its “style” or “personality.” Hofstede (1984) observes: “Organization subcultures, once established, are hard to change; just like national cultures, they tend to be very stable. They find their origin usually in the personalities and beliefs of the organization’s founders and the history of its formation” (273-274). It is likely that organizational subcultures result from shared work tasks that unite individual employees, often those with varied national backgrounds, into a team of like-minded, goal-oriented partners. When the subculture is strong, alien ethics programs may indeed be successful because the subculture and the sub-subculture allow it to be so.

Obligatory exposure to an alien cultural setting, however, may be quite stressful to those who are most alienated by the subculture. This stress could lead to communication failures and ineffective work results if not handled quickly and efficiently during the initial rollout of an ethics program. This might entail a structured and focused training program. Hofstede states that beginning in the 1960’s, organizations in the United States began to concentrate on the development of training programs aimed at “cross-cultural orientation.” The motivation behind the training programs was an apparent failure of American expatriates to succeed in their foreign assignments. The failures were not always associated with the employee, per se. Family and housing issues were often more stressful to the employee and the family than the job, thereby contributing to an overall breakdown of the assignment.

Two categories of training programs may need to be created: training to address the “general” subculture of the organization and another training to address the more

specific sub-subcultural that exists at the specific worksites. No doubt, the training for the sub-subculture is preferred because the specific needs of any given location are presented. Of course, the uniqueness of the sub-subculture can be examined more closely during training.

Finally, when discussing societies and the cultural differences among them, grand generalizations about the societies, specifically their cultural *values* can be misleading. Sen (1997) asserts: “While regional variations are extremely important, there is a real danger of over-simplifying the contrasts by concentrating on immense categories, such as ‘Asian values versus Western values,’ or ‘Confucian ethics versus Protestant ethics’” (11). These types of generalized claims once originated from academics in the Western tradition, for example, Max Weber and his emphasis on economics and Protestant ethics. More recently, however, the generalizations originate from Asia.

The growth in the Asian economy in the past decade or so has been great, and with that growth comes “...the same kind of value-arrogance that was characteristic of Europe in the nineteenth century” (Sen 1997, 11). Does this economic growth bring with it an Asian values system that is superior to Western values? Sen believes the answer is no and he is “deeply skeptical” of the comparison between the two. Sen points out that approximately 60 percent of the world’s population dwells in Asia. With such an enormous population, there is no standard value system that is followed by the populace throughout the entire region; the domestic diversity is just too great. Sen further notes that even if one were to focus on East Asia only, an area that includes an assortment of

countries including economic heavyweights like Korea, Japan, and China, one would be hard pressed to discover a generalized East Asian value structure common to them all.

The size of the region and the total population are not the only factors that prompt Sen to question regional value differences. He also suggests that shifting economic realities in the region have produced an historical unpredictability within the Asian culture. Sen mentions the Renaissance and the industrial revolution in Europe as instances of European creativity and advancement, well ahead of similar activities in Asia. Questions were asked at the time about how the values promulgated in Europe were able to help produce high levels of productivity and yield excellent social and economic outcomes compared to other countries, including Asia. According to the European view, Asia was deficient in whatever made capitalism succeed in Europe. “It was in this context that Max Weber diagnosed that it was the ‘rational ethic of activity’ that was missing in Asia, but plentifully provided by the Judeo-Christian heritage in general and Protestant ethics in particular” (Sen 1997, 11-12).

This conclusion can only make sense if economic results never pick up in Asia. However, when the economy of Japan improved during the mid-1900s while Asian values did not change, two important questions arose. How was it that Japan, a non-Western country, could become a powerful, successful developed nation? And second, how was it that that success was able to flourish in Japan, but not in China? Sen (1997) explains that Japan was regarded at that time as a country that exhibited something special, like Europe did years prior: “Special norms, traditions and values of Japan – from

the martial Samurai heritage to its family-centered business traditions—began getting very special attention” (12).

In the latter half of the twentieth century, other East Asian regions and countries such as Taiwan and South Korea began to show industrial and economic promise. How does one explain the “special norms, traditions and values of Japan” now? There may indeed be special values inherent in Japanese culture and those values may have had, and continue to have, a great influence on business and economic success. However, the region must assuredly have multiple norms, traditions and values that allow for success in specific countries and regions. For example, as China has grown economically, the virtues of Confucianism have come to the fore. And for Thailand, in Southeast Asia, as its economy grows, Buddhist values are present. The values of each country and region trump a generalized value system. Moreover, the Protestant ethic of yore could not have been the only value system that allowed for business success; it was simply a system that may have contributed to economic achievement at an earlier point in time.

It seems apparent that cultural values contribute greatly to how countries and various regions of the globe respond to the needs of business, especially when that business involves the acceptance of an “outside” organization that may choose to impose an alien culture upon it. We have considered that populations have strongly held beliefs, religious or otherwise, and those beliefs, over time, create cultural values that attach themselves to a country or a region. Hofstede believes that cultures include value systems that differentiate adherents of one group from another. And, as Sen says, cultural mores

change over time because of specific events that may occur, whether political, social or economic.

All the same, cultural values can create stumbling blocks for some and opportunities for others when organizations set up shop globally and impose ethics initiatives on their employees. Owners and managers of MNEs must be aware of the cultural values that are present in any specific work location and they must make appropriate decisions based on the concepts addressed in this chapter. The research suggests there is no one specific tried and true method of management that can be instituted universally. Each organization must decide on its own how to manage ethics programs at their multi-national locations.

## CHAPTER 4: APPLICATION, ANALYSIS, AND CONCLUSION

In this final chapter, I wish to advance the discussion concerning codes of ethics to which I alluded in the third chapter. We are now well-versed in the cultural concerns that affect ethics programs in the workplace, specifically for global organizations, and any examination of codes of ethics should address their common foundations. Business codes of ethics are the ethical methodologies that employers embrace and endorse at their worksites, and they are the written policies and procedures to which employees and employers refer when seeking ethical guidance. Lastly, after completing the examination of codes of ethics, I will review the concepts presented throughout this paper with the goal of answering the primary question of whether ethical practices in the workplace can conflict with the economic goals of an organization.

Since the mid-1980s, business codes of ethics have been viewed with a higher level of importance by senior management in large corporations as well as by individual owners of small businesses. Roger Bradburn (2001) explains: “Business ethics as an applied [ethics] subject really goes back to a number of scandals experienced in New York’s Wall Street in 1986” (16-17). Bradburn (2001) clarifies that insider trading was a major contributor to these scandals and many people were shocked by those involved – “senior members of society and... many of these people were business-school graduates!” (17). Unfortunately, graduating from a business school where one might take

(and perhaps should take) a required business ethics course does not guarantee an understanding of or an appreciation for ethical business practices. Why would ethical behavior, a topic that has been discussed for thousands of years, not be a more engrained element of the business environment? Perhaps it ultimately reflects the attitudes of self-interest that I have addressed throughout this paper. Moreover, as we have discovered, global organizations can create environments where dissimilar ethical values and goals may generate conflicts when an attempt is made to establish ethics programs in diverse workplace locations. With that in mind, a brief review of ethical theory may help shine a light on why it took so long for the business community to seriously consider the notion of business ethics.

There are two general schools of ethical thought: teleological and deontological. According to the teleological view, the focus is on the final product, not the manufacturing process, so to speak. One form of teleological ethics is “ethical egoism.” As the name suggests, this view supports the idea that an individual *should* act in ways that satisfy his or her needs and interests. Yet again, here is the notion of self-interest. The concept reflects the Hobbesian view mentioned earlier. Bradburn (2001) comments: “Writers such as Hobbes suggested that ultimately we are all genetically programmed to do what is right for us. We might show an interest in others, but if we do, it is only because it is in our own self-interest to do so” (4). One might confuse ethical egoism with psychological egoism in such instances. Psychological egoism is not a normative view of egoism as is ethical egoism. It is not a claim of how one *should* behave; it is simply an empirical doctrine claiming that individuals tend to seek out their own self-interest.

Ethical and psychological egoism may confuse us simply because the concepts conflict with the generally accepted view of desired moral behavior – the view of selflessness. The selfishness of ethical and psychological egoism is contrary to the more acceptable behaviors such as sacrificing for others or at least placing one's interests at the same or similar level as others.

A second form of teleological ethics is the well-known concept of utilitarianism. This concept centers on maximizing the good among the greatest number of people within any specific population. John Stuart Mill believes that happiness is the real object of the maximization concept, thereby extending the meaning of “the good” to “happiness.” To Mill, it is logical that happiness is the appropriate goal since, in his opinion, everyone wishes to obtain the perfect state of happiness.

Utilitarianism, however, has received much criticism. This criticism is aimed squarely at the need to account for justice. John Rawls (1971) acknowledges the dilemma:

The question is whether the imposition of disadvantages on a few can be outweighed by a greater sum of advantages enjoyed by others; or whether the weight of justice requires an equal liberty for all and permits only those economic and social inequalities which are to each person's interests (33).

In the workplace, for example, a utilitarian philosophy could favor some employees at the expense of others, thereby creating an unjust work environment. Moreover, a question that has not been clearly addressed by utilitarians is what should we be maximizing? For instance, it is not clear whether we should maximize pleasure, happiness, or “the good.” Moreover, whose pleasure, happiness, or good should be maximized? Without



clarification, it is difficult for one particular thing to be maximized since each individual strives to maximize the thing (or things) that he or she feels should be maximized. By doing so, maximization is not focused on one agreed-upon goal and is therefore spread too thin among individual ends.

Deontological theories choose a different path. Deontologists believe that it is important to focus on the rules or “duties” that guide the process of reasoning. In opposition to teleological thought, deontological thought focuses on the means as well as the ends. Accordingly, in order for the means to have any moral worth, moral rules and laws must be established and they must be applied to everyone equally. The laws and rules can therefore be “universal” relative to their application and they should be valid over time. In other words, a decision made at a particular moment should, in the future, reflect the same universal law that existed when the original decision was made. If not, there would be constant doubt as to whether one’s decision at any particular time would stand up to future applications or scrutiny.

Immanuel Kant is perhaps the best known of the philosophers who embraces the deontological view. Kant feels that moral duty is established through pure reason. The rational structure that arises through pure reason includes laws and rules that guide people and often constrain them from their own personal desires. “He [Kant] believed that all considerations of utility and self-interest are secondary, because the moral worth of an agent’s action depends exclusively on the moral acceptability of the rule according to which the person is acting” (Beauchamp 2009, 26).

Kant expands the deontological view and develops his “categorical imperative.” This notion is understood as a “practical law” and one that restrains the will relative to any end, not just an end that has already been established. Kant (2005) does not simply want the categorical imperative to be a practical law, he develops the concept into a moral law: “...I should never act except in such a way that I can also will that my maxim should become a universal law” (901). In other words, Kant universalizes duties, laws, and rules in such a way that they are able to satisfy those in the deontological camp.

Some argue that the deontological view has too narrow a focus as it does not allow for exceptions and may not allow for “real-life” experiences. In their view, there are often instances when matters fall outside the narrowly defined duties described by the deontological theory. Additionally, there are some who believe that Kant’s universal view is misguided in that it does not recognize the need to focus on the specific responsibilities that can exist among individuals who function in specific roles, such as employees. Because Kant’s universal viewpoint does not allow for exceptions, it severely limits moral emotions such as caring and sympathy. These points address the reality of the business environment, where the importance of manager and subordinate relations are critical. Caring and sympathy are little regarded by the deontological view, thereby creating the possibility of emotional conflict and misunderstanding in the workplace.

With a heightened understanding of the two forms of ethical thought, we can now ask a question that is essential to this chapter: Why do some organizations feel the need to create ethical codes? After all, if Kant is correct, moral duty and more behavior already exist through pure reason. Apparently, many organizations feel an additional impetus is

needed beyond pure reason in order to guide the ethical behavior of their employees, or maybe employers wish to control the work environment by creating ethical rules that are organizationally effective without being job specific. In this way, they can make every effort to control employee behavior by setting a particular tone within the organization. Since behavior is often associated with business relationships, the codes "...cover a wide range of behavior, including dealings with competitors, the general public, customers, and peers and superiors within an organization" (Weller 1988, 389). As Steven Weller implies, it is not enough for an organization to merely act within the law; ethical behaviors are needed to connect people to people and organizations to organizations. Perhaps this justifies the view that the deontological theory is too narrow because it does not allow for exceptions such as the specific employee-related responsibilities just mentioned.

Norman Bowie (1982) views the issue from a different angle: "...perhaps most important, the development of business codes of ethics is clearly in the interest of business itself. There is virtual unanimity in the business community that unethical business practices threaten to bring about increased government regulation of business" (93). Government regulations can be time consuming exercises as well as expensive for most businesses. If the business environment is known to be run in an ethical manner, regulation relative to ethical business practices would be unnecessary. On the other hand, if it is revealed that the business environment of a particular organization is unethically managed, confidence among the general public likely declines thereby creating a lack of

trust and perhaps most importantly (to the bottom line) a slowdown of product and service sales.

There are some who question whether current forms of codes of ethics create ethical business environments. Donald Robin posits that codes of ethics are often “very different” yet “often similar.” According to Robin (1989), one of the similarities among codes of ethics “...is their tendency to be legalistic” (66). Robin is correct in his assessment since codes of ethics frequently contain legalistic jargon. “Legalese” is necessary; however, that style of language generally produces codes that are difficult to read and can be perceived by employees as vague, legal instructions rather than useful tools that potentially enhance ethical behavior. Employees look to a code that will coach them on how to behave in the workplace in a general sense. Although the need for specific legal language is ultimately necessary, employees may have difficulty understanding the language and will therefore not entirely understand the code. This may result in misunderstandings relative to required or preferred ethical behavior in the workplace. Employers should be careful to create codes of ethics that are uncomplicated to read yet include the necessary legal language to protect the employees and the organization from legal challenges.

The Hobbesian concept argues that individuals act in their own self-interest, in other words, psychological egoism. In this view, when employees are presented with a code of ethics, they often cherry-pick the code in a manner that ultimately leads to the satisfaction of their individual desires and goals. The prevailing workplace culture may reinforce unwritten “individual” codes of ethics while ignoring the written codes that

*should* represent the desires of the organization. This does not, however, seem likely to work in workplaces that are collectivist in nature. We learned in the third chapter that the key for collectivists is to refrain from disrupting the harmony among the group.

For the utilitarian theory to work properly, it must exist alongside an organizational culture that fosters collective rather than individual goals. Referring back to Bowie, it seems logical that businesses must create codes of ethics that are in the interest of the business itself. Ethical and psychological egoism can potentially inhibit the ability of a business to maximize its potential (profits and growth) because employees create their own “ethical worlds” by maximizing what is in their individual best interests. In this case, organizations ought to create meaningful and relevant codes of ethics that are constantly updated to reflect the needs of the business. These codes should be communicated frequently to all stakeholders so that there is no confusion about ethical expectations within the organization.

Problematic to the effectiveness of codes of ethics is that while the content may be reviewed by management on a regular or perhaps not-so regular basis, it may not embody the current desires of the organization. In other words, if employees follow the “current” written code, they may follow a path that was once considered the proper ethical path for the organization but is now outdated. An organization that relies on cultural ethical practices that are in conflict with an out-of-date code of ethics may discover that its ethical goals are achieved through the natural outcome of a maturing organizational culture. Amy Klemm Verbos (2007) observes: “...with respect to ethics, organizational culture may supersede written code. In a positive ethical organization, a

written code of ethics is a mere formality” (25). Moreover, no organization should consider a code of ethics as “evergreen.” Many organizations do not review and update their codes in a timely manner; therefore they leave themselves open to unintended unethical work practices. In such cases, it is likely that employees may not read the code on any consistent basis unless the organization has a practice of mandating the employees to do so. This is undoubtedly undesirable unless the organizational culture supersedes the written code as Verbos explains.

Essential to the process of organizational ethical communication is the ability of the organization to build a competent leadership team. Verbos states:

Authentic leaders substantively manage an ethical organizational identity by aligning organizational process with leader values. They symbolically manage ethical organizational identity by including it in the visible artifacts of organizational culture, including the mission, vision, and strategy...” (26).

Strong leadership must exist in any organization in order for the business culture to attend to its mission, vision, and ethical standards. In doing so, the organization can effectively define its goals and it can generate a culture that operates efficiently to accomplish those goals.

Does this not, however, move us in the direction of the deontological theory? In Verbos’ quote, she mentions “organizational process.” It seems that in order to create an efficient organizational process, an organization must craft rules that employees are obliged to follow. For example, it is often the case that job descriptions use the word “duties” to describe the essential actions that must be taken when performing the job.

Similarly, in a code of ethics, employees need to follow the required “duties” in order to achieve the ethical goals of the organization.

Revisiting Kant’s categorical imperative, it seems reasonable that an organization would want to establish duties for all employees that would be followed universally. Most employers do so and they fold the duties into formal policies. The employees and the required duties contained in the policies can be considered means relative to the organization’s desired ends. If the policies are rational, clearly written, and made conveniently available to employees, the employees and the policies effectively satisfy the “means position.” Moreover, the employee duties will also then reflect the universalist theme that runs through the concept of the categorical imperative.

Some business practices that follow Kant’s universal law will not work. Matthew C. Altman (2007) provides an interesting example:

The formula of universal law rules out deceptive business practices, for example. In Kantian terms, filing a false earnings report is wrong because the maxim cannot be universalized: If every corporation submitted false reports, stockbrokers and potential investors would be unable to determine their value. However, the functioning of the stock market depends on certain background conditions, including the honest assessment of a business’s revenue. If every company lies, the market could not set an accurate price for any stock, so there would be no public trading (255).

Deceptive business practices of this sort are considered ethically wrong by most people; however, Friedman might remind us of the concept of “ethical custom” that we briefly touched on in the first chapter. His view is that owners of organizations wish to “make as much money as possible” while following the laws and ethical customs that conform to “the basic rules of society.” His position is likely true; however, it comes dangerously

close to an apparent acceptance of an act (falsifying an earnings report) that seems ethically wrong, even if it might be within legal limits. Additionally, it is worrisome if that type of activity is accepted as an ethical custom. This is a weak moral stance.

“Corporate policies can encourage or discourage people to act in certain ways, but the morality of a given action cannot be determined by such policies” (Altman 2007, 255).

Clearly, an organization’s ethical code should focus on moral business practices that will discourage this type of ethical dilemma.

Organizational codes of ethics successfully endure in situations where both the teleological and deontological theories exist. I suggest, however, that the most efficient codes of ethics occur within the deontological realm. Psychological egoism creates a dilemma for an organization because individual employees do not necessarily keep their eyes on the organization’s “prize.” Many, perhaps most employees are self-interested and follow an organization’s code of ethics in a manner that satisfies their individual needs while only tangentially satisfying the needs of the organization. Nellis and Parker note that managers might focus on *personal* goals such as status and rewards. Of course, this manner of thinking can also be true of employees in general. The goals, being personal in nature, satisfy personal self-interest rather than the overall interests of the organization. Nellis and Parker further state that this can potentially create a work environment where managers and employees prefer to achieve only satisfactory levels of performance rather than higher levels where the goals of the organization are achieved. This may simply be a manifestation of the basic tendency of human beings to act with self-interest even when acting in the interests of the organization can potentially increase one’s own goals.



Individual employees may not know if they will gain by working toward the organization's interests, so they focus inward on the personal goals that they know and feel they can control.

The utilitarian theory can potentially work well in a collectivist culture because the theory does not necessarily limit the inclusion of duties in a code of ethics. However, it may lack the influence relative to employee responsibilities (duties) that render the deontological theory the more favored option among organizations relative to codes of ethics. This will not always be the case. Kant's categorical imperative addresses this missing link of employee responsibility. It is an important factor in considering the deontological theory because the inclusion of duties and the concept of universal law have the potential to make the deontological theory the more reliable and potentially useful of the two discussed, regardless of culture. This can be so because as Weaver observed in the third chapter, there can be a limiting factor to one's culture. Recall that individuals have the potential to adjust to environments where multiple cultures exist because they can often set aside their customary cultural behaviors. That said, individuals in a collectivist culture can adapt to a structured, alien notion such as the deontological theory.

The duties, universal laws, and the personal and collective responsibilities that arise from these concepts preserve cultures and workplaces and they prevent these same cultures and workplaces from collapsing. Without imposing some form of ethical constraint, self-interested actions by individuals and by extension, their organizations can

create instances where ethical behaviors are minimized relative to self-interested goals that are associated with personal status and profit, or organizational profit.

Smith and Edgeworth understand that self-interest is a natural state of human behavior. For example, Smith perceives wealth accumulation and the use of such wealth in the market as behavior that is natural to human beings. This action is driven by self-interest and is described by Smith through his example of the butcher, the brewer, and the baker. Moreover, recall that Edgeworth believes that individuals are impure egoists, self-interested with a touch of utilitarianism. Edgeworth's view, although heavily weighted by self-interest, allows for a hint of morality in human action.

Smith, as a Sentimentalist, also allows for a suggestion of morality when he addresses sympathy and its responding emotions. As we know from *The Wealth of Nations*, he is a believer in the power of self-interest; however, as he notes in *The Theory of Moral Sentiments*, he deems sentiments, or feelings, not reason, as the distinguishing mark of human beings. This is not an opinion that is agreed upon by all, as we discovered when considering Hobbes' views. It may be, however, that many, if not most human beings carry sentimental, sympathetic feelings for others; however, as Hobbes observes, the tendency toward self-interest typically overwhelms the sympathetic emotions that allow for accepted and ongoing ethical behaviors.

This is the pretext to why codes of ethics are important in the workplace. Although an organization can be staffed with a majority of like-minded, ethical employees, the dynamic nature of workplace staffing generates constant employee turnover at all levels of an organization. Virtuous, ethical employees come and go;

however, for an organization to establish consistency relative to ethical behavior, codes of ethics must exist that include specific policies and procedures for each employee to follow, no matter on which level of the organization the employee works.

Schmalensee observes that middle and top-level managers, not owners, make challenging business decisions on a daily bases. These decisions are shaped by whether one sets out to achieve his or her personal goals or to attain the organizational goals to which one has been charged. In the first instance, *individual* self-interest is satisfied to a much greater degree than when one follows the path of organizational goals. In the long view, or as Cavanagh terms it, “enlightened self-interest,” organizational goals that are successfully fulfilled should improve the prospects of fulfilling individual goals along with organizational goals. Organizational financial success can bring about rewards to individual contributors through bonuses and increases in base pay. Moreover, the success of a growing organization should allow for job creation, a positive sign for anxious, goal oriented employees. In such instances, the self-interest of employees and again, by extension, the organization is satisfied.

Freeman’s notion that top management must seek out the welfare of the community by involving all stakeholders, not simply stockholders, creates a level of tension between the natural internal interests of an organization and the desire to support the local community. Perhaps this type of social responsibility mirrors the relationship between employee and organization in that the lesser entity has the potential of gain (the satisfaction of self-interest) if the relationship with the greater entity is financially constructive. The “natural self-interest” reflects the view of Friedman who, as we

learned, deviates from Freeman's view. Friedman may have a more pragmatic view of business in that an organization may exhibit acts of social responsibility as a tactic to successfully achieve its goals while not acting with true socially responsible intentions. Friedman imagines the end game for business as profit realization for stockholders; Freeman envisions the end game as benefits and profits spread among many, beyond those with a direct stake in corporate profits. Although Freeman's view brings with it an impression of communal justice, ultimately, there may be too many cooks in the kitchen, thereby diminishing the outcomes of socially responsible actions. The demands of all stakeholders eventually create gridlock in the organization's goals because there are too many "wants" from too many sources. This is a good example of multiple conflicting self-interests.

The concept of self-interest among individuals and organizations has been a major theme throughout this paper. One might ask, however, if there are so many individuals who are self-interested, why do they not enter the market on their own rather than relying on the employment structure of an organization? For that matter, why do organizations exist at all if the goals (presumably financial goals) of individuals who enter the market can be achieved individually? Ronald Coase (1937) addresses this issue:

Our task is to attempt to discover why a firm emerges at all in a specialized exchange economy. The price mechanism (considered purely from the side of the direction of resources) might be superseded if the relationship which replaced it was desired for its own sake. This would be the case, for example, if some people preferred to work under someone, and firms would arise naturally from this (20).

Coase understands that an organization (a firm) can naturally arise when there are individuals who would rather work for an organization than enter the market on their own. Perhaps these potential employees envision a greater personal benefit in earning a wage or salary along with benefits, than in risking one's own time and money in the market.

However, what is the benefit of establishing an organization, regardless of whether there are individuals who wish to work for the organization or not? Prior to Coase, it was understood in economic circles that the market was efficient in the sense that those who could provide goods and services were competing in the market and were thereby providing these goods and services at lower competitive costs. In this instance, it is sensible for individuals to establish contracts in the market rather than to hire employees to staff an organization. Coase (1937) recognizes, however, that "...there is a cost to using the price mechanism" (21). He understands that one must be able to determine what the pertinent prices are within the market and then establish the cost of negotiating and establishing contracts within that market. Because of competition, market "transaction costs" can be minimized, however, they cannot be eliminated.

Coase (1937) believes that an organization can replicate the competitive market environment by establishing cooperative contracts within the organization itself, thereby saving costs and increasing control over the contracts:

The contract is one whereby the factor, for a certain remuneration (which may be fixed or fluctuating), agrees to obey the directions of an entrepreneur within certain limits. The essence of the contract is that it should only state the limits to the powers of the entrepreneur. Within these limits, he can therefore direct the other factors of production (21).

In other words, the organization can hire and pay employees to perform work at a lower cost than is available on the open market where costs are higher or perhaps equal. Hired employees satisfy what can be understood as a “long-term contract” as opposed to contracts in the market that might likely be shorter in duration. Because of the length of the employment understanding or contract, cost savings to the organization can be realized. Note that “contract” in an employment sense does not, at least in this discussion, necessarily indicate that there is a legal, written document obligating an employee to work a certain amount of time for the organization. Most employment in the United States is “employment-at-will” and is not governed by legal contracts, per se. However, the use of the word contract is used here to compare employment in an organization with contracting for work in the market.

Coase (1937) attends to the legal relationship between employer and employee or “master and servant” by noting that “...direction...is the essence of legal concept of ‘employer and employee’...” (29). He believes this because “...the servant must be under the duty of rendering personal services to the master or to others on behalf of the master...,” and “...[t]he master must have the right to control the servant’s work, either personally or by another servant or agent” (29). Coase’s notion is as true today as it was when he wrote it. Organizations expect employees to follow the direction of top management and to perform their work in a manner that abides by the goals of the organization. Conflict arises, however, when we consider the previous discussion about individuals who focus more on their personal goals rather than organizational goals.

Schlamensee, Nellis, and Parker observe that managers, acting as individuals, may not actively attempt to maximize the goals of the organization, but rather, seek to achieve higher levels of personal and professional status, along with attaining organizational rewards such as increased pay and benefits. It is appropriate in such instances that managers and employees act responsibly and ethically by maintaining their primary focus on the goals of the organization.

In terms of culture, Coase's notion of the "firm" appears to be a collectivist one. The internal contracts are designed to work in concert to achieve lower costs and more efficient outcomes. The concept is one of a team working together to realize organizational goals, not of individuals who focus primarily on their own goals. Because members of collectivist groups wish to maintain harmony within the group and because they shy away from conflict, efficiency within the organization should be high. These employees would likely struggle on their own in the market; therefore, a collectivist environment should encourage equality and hard work that focuses on organizational goals. Additionally, social responsibility may fit well into this scheme for similar reasons discussed earlier. There is no reason to believe that an organization that wishes to minimize transaction costs in the market cannot simultaneously consider socially responsible actions if those actions satisfy its goals. The question, again, is whether the organization makes such a gesture out of a true sense of responsibility to the society or from cloaked self-interest.

Perhaps it is now possible to answer the question that is raised at the beginning of this paper: Can the economic goals of an organization, whatever they may be,

successfully survive in an environment where the organization institutes “self-imposed choice constraints?” For our purposes, “choice constraints” are characterized as ethical constraints, for example, codes of ethics.

At the beginning of this paper, I explained that economic discussions occurred as early as the time of Plato and Aristotle. They deliberated about the kinds of relationships that exist among people within a society and they specifically examined how people need each other, especially during their time when bartering and the exchange of goods and services was beginning to flourish. Daily living became more complicated in that time and exchange moved beyond bartering to an indirect exchange of money for commodities; commerce was born.

The birth of commerce stimulated an already deep human predisposition, the inclination to act with self-interest. Smith notes that self-interest is the “driving power” that influences people to perform the various types of work for which those in a society are willing to pay. Furthermore, self-interested people create business competition which ultimately spawns “the market.” Edgeworth suspects, however, that self-interested people are also “impure” in that they are often drawn to utilitarian tendencies. Smith, the Sentimentalist, deems sentiments to be the distinguishing mark of human beings; therefore self-interest, according to him, is often moderated by feelings of sympathy for others. Hobbes does not agree and feels that self-interest is generally the stronger force.

From a business perspective, an organization wishes to protect its financial interests, as profit and growth have long been understood as the rationale behind why organizations enter and compete in the market. The organization analyzes the overall cost



of conducting business in the environment in which it competes and the actions involved are born of self-interest. Friedman's emphasis on the objective science of economics and John Neville Keynes' concept of focusing on "what is" seem suitable for evaluating and predicting organizational behavior. Economic forecasting is, or should be, a part of an organization's strategic business plan, a plan that begins with self-interest. Even from the Coasian interpretation where the "market" is brought "in-house," the organization similarly seeks goals of self-interest that are associated with profits and growth.

We should consider, however, the utilitarian pull of Edgeworth and the sentimentality of Smith. According to them, the potential for social action in business exists because people genuinely care about others. A particular level of care for others is to be expected among human beings; however, self-interest from a personal perspective often overwhelms the feelings associated with care and sentimentality. For an organization, socially responsible acts can be advantageous if the acts aid in accomplishing the desired social task while simultaneously achieving the economic goals of the organization. As we know from Friedman, however, organizations, per se, cannot have responsibilities and obligations. Only people can have obligations; however, we speak of an organization as having obligations as a way to more easily understand the collective responsibilities and obligations of owners, managers, and employees. While an organization may wish to honestly demonstrate care for the general society or perhaps more to the point, the local community, it is likely that the long business view is aimed at organizational profitability and survival. In the majority of cases, then, the inherent motivation of financial self-interest prevails.

Friedman posits that the interests of an organization may not be what they appear to be. Socially responsible actions may conceal self-interested actions, while generating apparent goodwill in the community. Freeman, as we know, thinks that management should focus on the welfare of the community by involving all stakeholders. This idea “feels” good; however, it complicates achieving business goals because it likely causes conflict among the stakeholders who have dissimilar views of what the goals should be. If an organization can act in a socially responsible manner while not surrendering profits, such a deed might be considered by some as a moral obligation, a duty from the Kantian view. Based on Freeman’s notion of community welfare, the stakeholders of the organization and the society in which the organization resides may expect, even require, that an organization act in an ethical manner by moving beyond legal obligations and to sacrifice profit or at least maintain profit levels if possible. Some organizations may do this; however, any loss of profit is likely to be regarded by the majority of organizations as unacceptable and it would therefore put the brakes on socially responsible activities. Following Friedman’s opinion, social actions, more often than not, conflict with the initial motivation of stockholders who select corporate executives as agents to represent their interests, those interests being primarily profit. Freeman, of course, wishes the interests of all stakeholders to be considered. This notion produces conflict and may limit the ability of an organization to realize its financial goals.

It is now apparent that in many situations, ethical practices can indeed conflict with the economic goals of an organization. We have discovered that self-interest is a very strong human emotion, one that is often the driving power behind individual and

organizational goal-setting decisions. In the business environment it is hard to refute that the ultimate goal of an organization is to make a profit and to grow the business. Even a “not-for-profit” organization must secure revenue in order to continue to run its business. This type of an organization exists to help individuals or communities, yet, it is probable that financial decisions are made based on similar financial motives like those of a “for profit” organization.

This reasoning seems rather harsh, as moral duty and moral sentiment seem to be absent from general business practices. This is one reason why codes of ethics exist. We have learned that an ethics code is established in an attempt to create a workplace that is influenced by more than the “the business of business is business” mantra. Codes of ethics should motivate employees at all levels of an organization to behave in ways that demonstrate integrity in one’s work as well as compassion and caring for colleagues and the general population. These results can and do exist in the real world of business in many organizations. Proof of this can be found in ratings such as “best places to work” rankings that are often published in magazines across the United States. Not all organizations, however, are successful with ethics programs, thereby placing typical financial business decisions in conflict with what may be seen by many in an organization as lower priority ethical desires.

An organization may become motivated to act in a socially responsible manner once it has observed the good feelings and successful partnerships that develop among employees as an outcome of a successful ethics program. Then again, this is where the conflict of moral motivation and business sense often occurs. The success of an ethics

program as a motivator to act outside of the self-interest of the employee population and the financial interests of the organization will be determined by the probable financial costs associated with the administration of the social project and the financial result that the social effort will have on the organization's financial bottom line. As interested as an organization might be to support the community, the bottom line will most assuredly be the deciding factor in whether the organization can act as a socially responsible business or not.

This paper has included people who are regarded historically as important contributors to economic and philosophical thought. As the paper nears its end, we see that Friedman and Freeman, both relatively "modern" contributors to these fields, have assisted us with solving the initial question: Can ethical practices in the workplace conflict with economic goals? The answer is yes, and no. Each situation is different based on several factors. As an example, during various financial upturns and downturns, an organization will feel compelled to follow a business plan based on stockholder desires, the Friedman view, or stakeholder desires, the Freeman position. In both cases, self-interest appears to dominate the business decisions involved. It is to be expected, especially in difficult economic times that the Friedman view will be the choice of management in many organizations as they rein in their philanthropic desires as an approach to appeasing their stockholders and ultimately to remain solvent. In such instances, stakeholders will be disappointed and will have to wait for better times. This is the financial reality of business.

Codes of ethics may have a smaller role to play in regard to conflict and economic goals. Although it is possible for an ethically minded workforce to expand its efforts to include socially responsible actions, the ethical minds involved will understand that they ultimately must appease the hand that feeds them in order to sustain their own self-interest, earning a living and supporting their families. Here again, personal self-interest and the goal of the organization are satisfied.

Apparently, self-interest and the acquisition of wealth are, and have been natural human inclinations for a significant portion of human history. Even the Sentimentalist Smith thinks so. Much has changed since Aristotle's time. Aristotle, the individual who, according to Robbins, influenced the world of his day through economic analysis, claimed that acquired property achieved through commerce, especially money, was "not natural at all." I must disagree. As we have learned, self-interest and the desire to acquire wealth, a yearning aimed at a target larger and well beyond Aristotle's limited level of wealth acquisition for household management, are among the strongest of human tendencies. Would Aristotle come to a different conclusion if he were alive today? Perhaps, and in doing so, he might propose an economic analysis that would once again influence the world for generations. It would be interesting to know.

## REFERENCES

- Altman, Matthew C. 2007. "The Decomposition of the Corporate Body: What Kant Cannot Contribute to Business Ethics." *Journal of Business Ethics* 74: 253-266.
- Anspach, Ralph. 1972. "The Implications of the *Theory of Moral Sentiments* for Adam Smith's Economic Thought. *History of Political Economy* 4, 1 (Spring): 176-206.
- Aristotle. 1998. *Politics*. Trans. C.D.C. Reeve. Indianapolis: Hackett Publishing Company.
- Aristotle. 1999. *Nicomachean Ethics*. Trans. Martin Ostwald. Upper Saddle River: Prentice.
- Audi, Robert. 2012. "Virtue Ethics as a Resource in Business." *Business Ethics Quarterly* 22, 2 (April): 273-291.
- Beauchamp, Tom, Norman Bowie, and Denis Arnold. 2009. *Ethical Theory and Business*. 8<sup>th</sup> ed., Upper Saddle River: Pearson.
- Bostock, David. 2000. *Aristotle's Ethics*. New York: Oxford.
- Bowie, Norman. 1982. *Business Ethics*. Englewood Cliffs: Prentice-Hall.
- Bradburn, Roger. 2001. *Understanding Business Ethics*. London: Continuum.
- Cavanagh, Gerald F. 1990. *American Business Values*. 3<sup>rd</sup> ed. Englewood Cliffs: Prentice Hall.
- Coase, R.H. 1937. "The Nature of the Firm." In *The Nature of the Firm: Origins, Evolution, and Development*, eds. Oliver E. Williamson and Sidney G. Winter. New York: Oxford.
- Curzer, Howard J. 2002. "Aristotle's Painful Path to Virtue." *Journal of the History of Philosophy* 40, 2 (April): 141-162.

- Desai, Ashay B., and Terry Rittenburg. 1997. "Global Ethics: An Integrative Framework for MNEs." *Journal of Business Ethics* 16: 791-800.
- Epstein, Marc J., and Kirk O. Hanson, eds. 2006. *The Accountable Corporation: Corporate Social Responsibility*. v3. Westport: Praeger.
- Formaini, Robert L., and Thomas F. Siems. (n.d.). "Ronald Coase: The Nature of Firms and Their Costs." Retrieved 02.28.2014 from <http://www.dallasfed.org/assets/documents/research/ei/ei0303.pdf>
- Freeman, R. Edward. (n.d.). "Stakeholder Theory of the Modern Corporation." Retrieved 02.20.2014 from <http://academic.udayton.edu/lawrenceulrich/Stakeholder%20Theory.pdf>
- Friedman, Milton. 1953. "The Methodology of Positive Economics." In *The Philosophy of Economics: An Anthology*, 3<sup>rd</sup> ed., ed. Daniel M. Hausman. New York: Cambridge University Press.
- Friedman, Milton. 1970. "The Social Responsibility of Business is to Increase Profits." *The New York Times Magazine*, September.
- Goldstein, Irwin. 1989. "Pleasure and Pain: Unconditional, Intrinsic Values." *Philosophy and Phenomenological Research* 1, 2 (December): 255-276.
- Hausman, Daniel M. 1981. "John Stuart Mill's Philosophy of Economics." *Philosophy of Science* 48, 3 (September): 363-385.
- Hausman, Daniel M., ed. 2008. *The Philosophy of Economics: An Anthology*. New York: Cambridge University Press.
- Heilbroner, Robert L. 1972. *The Worldly Philosophers: The Lives, Times, and Ideas of the Great Economic Thinkers*. 4<sup>th</sup> ed. New York: Simon and Schuster.
- Hofstede, Geert. 1984. *Cultures Consequences: International Differences in Work-Related Values*. Beverly Hills: Sage Publications.
- Kay, John A. 1991. "Economics and Business." *The Economic Journal* 101, 404 (January): 57-63.
- Kant, Immanuel. (1785) 2005. "Grounding for the Metaphysics of Morals." In *Classics of Moral and Political Theory*, ed. Michael L. Morgan. Indianapolis: Hackett.

- Kline, John M. 2010. *Ethics for International Business: Decision Making in a Global Political Economy*. 2<sup>nd</sup> ed. New York: Routledge.
- McNulty, Paul J. 1975. "A Note on the Division of Labor in Plato and Smith." *History of Political Economy* 7, 3 (Fall): 372-378.
- Nellis, Joseph G., and David Parker. 1997. *The Essence of Business Economics*. 2<sup>nd</sup> ed. London: Prentice Hall.
- Parhizgar, Kamal Dean, and Robert Parhizgar. 2006. *Multicultural Business Ethics and Global Managerial Moral Reasoning*. Lanham: University Press of America.
- Plato. 1974. *Plato: The Republic*. Trans. G.M.A. Grube. Indianapolis: Hackett Publishing Company.
- Rawls, John. 1971. *A Theory of Justice*. Cambridge: Belknap.
- Robbins, Lionel. 1998. *A History of Economic Thought*. Princeton: Princeton University Press.
- Robin, Donald, Michael Giallourakis, Fred David, and Thomas Moritz. 1989. "A Different Look at Codes of Ethics." *Business Horizons* (Jan-Feb): 66-73.
- Schmalensee, Richard. 1988. "Industrial Economics: An Overview." *The Economic Journal* 98, 392 (September): 643-681.
- Schumpeter. 2010. "Why do firms exist?" Retrieved 02.28.2014 from <http://www.economist.com/node/17730360>
- Sen, Amartya. 1997. "Economics, Business Principles and Moral Sentiments." *Business Ethics Quarterly* 7, 3 (July): 5-15.
- Sen, Amartya K. 1977. "Rational Fools: A critique of the Behavioral Foundations of Economic Theory." *Philosophy & Public Affairs* 6, 4 (Summer): 317-344.
- Shapiro, Carl. 1989. "The Theory of Business Strategy." *The RAND Journal of Economics* 20, 1 (Spring): 125-137.
- Sherman, Nancy. 1989. *The Fabric of Character: Aristotle's Theory of Virtue*. Oxford: Clarendon.
- Smith, Adam. (1776) 1937. *An Inquiry into the Nature and Causes of The Wealth of Nations*. New York: Random House.



- Smith, Adam. (1759) 2009. *The Theory of Moral Sentiments*. Ryan Patrick Hanley, ed. New York: Penguin.
- Tessitore, Aristide. 1996. *Reading Aristotle's Ethics: Virtue, Rhetoric, and Political Philosophy*. New York: State University of New York.
- Verbos, Amy Klemm, et al. 2007. "The Positive Ethical Organization: Enacting a Living Code of Ethics and Ethical Organizational Identity." *Journal of Business Ethics* 76: 17-33.
- Warne, Christopher. 2006. *Aristotle's Nicomachean Ethics*. London: Continuum.
- Weaver, Gary R. 2001. "Ethics Programs in Global Businesses: Culture's Role in Managing Ethics." *Journal of Business Ethics* 30: 3-15.
- Weller, Steven. 1988. "The Effectiveness of Corporate Codes of Ethics." *Journal of Business Ethics* 7: 389-395.
- Wielenberg, Erik. 2000. "Pleasure as a Sign of Moral Virtue in the Nichomachean Ethics." *The Journal of Value Inquiry* 34: 439-449.
- Wood, Allen W. 1999. *Kant's Ethical Thought*. Cambridge: Cambridge.
- Wood, Donna J., Jeanne M. Logsdon, Patsy G. Lewellyn, and Kim Davenport. 2006. *Global Business Citizenship: A Transformative Framework for Ethics and Sustainable Capitalism*. Armonk: M.E. Sharpe.

## BIOGRAPHY

William P. Schaefer attended Arizona State University, where he received his Bachelor of Arts in Philosophy in 1992. Since 1996, he has worked as a human resource and training professional for several employers in a variety of industries. Mr. Schaefer has worked for the Society for Human Resource Management (SHRM) since 2004. In the course of the 2012-2013 academic year, he was recognized by the George Mason University Department of Philosophy as an Osher Lifelong Learning Institute (OLLI) scholarship award winner.