Philosophy 104, Business Ethics, Queens College, Spring 2007
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Lecture Notes, February 6

I. Quiz: Distinguish stockholders from stakeholders.

II. Friedman's argument against business ethics

At the end of last class, we examined Friedman's argument against corporate social responsibility:

1. Corporations are made to maximize profits.
2. Social responsibility sacrifices profits in order to attain goals which are unrelated to profit maximization.
3. Sacrificing profits for secondary goals acts as a tax on stockholders, and weakens the company's competitive standing.
4. To tax stockholders and weaken a company's competitive standing is wrong.

So, corporate social responsibility is immoral.

Essentially, Friedman's argument may be taken as rejecting stakeholder theory, which claims that the value of a company is measured by its effects on a wide range of stakeholders, in favor of stockholder theory, which claims that the value of a company is measured by its returns to owners, i.e. its stock.
Most corporations have a single goal, to maximize profits.
(Ignore not-for-profits, which have an eleemosynary, or charitable, goal of providing services.)
People buy stock in publicly traded companies because they want to increase their value.
Any action which the corporation takes in order to be a better corporate citizen and which does not maximize profits, weakens the company.
Such actions levy a tax on the stockholders, since they reduce the value of the stock in order to seek some secondary, socially responsible goal, like reducing pollution, diversifying the workforce, retarding inflation, or protecting the environment.
"Insofar as his actions lower the wages of some employees, he is spending their money." (2)
Furthermore, the corporate executive is generally not hired as an expert in diversification, pollution control, inflation management, or environmental protection.
He is hired in order to maximize profits on the sale of whatever the company produces.

There are experts in the environment and inflation management, and other social causes.
If it is in the interests of the society to advance these causes, we should pass laws which require companies to act in specifically prescribed ways.
For example, if we want to protect the Alaskan wilderness, we should pass laws which prohibit oil companies from exploratory drilling.
If we want to provide jobs to untrained people, we should create laws which require companies to hire and train such people.
But this is the role of the society at large, i.e. the government, and it is not the role of the corporation itself, which only weakens itself, compared to its competitors, by voluntarily acting with greater social responsibility than the law demands.

Notice that Friedman is not urging corporations to disobey the law.
Businesses must stay within the rules of the game.
But, to expect the company to exercise more social responsibility than the law requires is to ask them to act in an undemocratic way.
If people do not vote for lawmakers who pass laws which require socially responsible actions, then the corporations should not violate the will of the majority by acting in socially responsible ways.

If Friedman is right, then the whole pursuit of business ethics, within corporations, is fundamentally misguided, and even harmful.
We should rely merely on market forces to guide corporations.
We can go home.

III. But: Companies can profit from social responsibility

Consider Green Mountain Coffee, of Waterbury VT.
http://worldbenefit.cwru.edu/inquiry/feature_gmcr.cfm
They pay their growers and workers more than they could.
They are careful about the environment, introducing environmentally-friendly cups as well as using farmers who maintain sustainable agricultural practices.
They give time off to workers to volunteer with local charities.
And they have profited fabulously, with 15-20% growth annually.
Green Mountain's executives do not seem suicidal, but rather highly successful.

IV. The success of socially responsible companies does not refute Friedman

Friedman has an explanation for the success of companies like Green Mountain, which does not completely undermine his position.
For, the market could be such that the kind of social responsibility Green Market exercises is actually just long-term profit maximization.
Consider that some individuals prefer not just the product, but a good feeling about the company from which they buy a product.
A popular website, buyblue, encourages people to buy from companies which are politically liberal, for example.
http://www.buyblue.org/
So, social responsibility can be in the long-term interests of a company.

V. Long-term self-interest vs morality

Friedman argues that social responsibility is immoral, in part because it weakens a company.
But, some companies are very profitable while being socially responsible.
The profitability of socially responsible companies, though, need not be seen as evidence against Friedman's claim because social responsibility can be in the long-term interests of a company.

Friedman still is not happy about the notion of social responsibility.

To sell these practices as socially responsible, Friedman argues, when they are merely in the long-term interests of the company, is hypocritical and misleading.
"This is one way for a corporation to... fraud." (3-4)
Friedman's analysis is cynical, but his claim is not clearly false.

The issue of ethics vs long-term interests is a deep and important one for business ethics, and for ethics generally.
Often, what passes as ethics is really just consideration of long-term consequences of one's actions.
Still, such considerations are important.
And it does seem that even if Green Mountain is just protecting its long-term interests, the emphasis on corporate responsibility does distinguish it from other companies which also focus on profit maximization, but which do not engage in the kinds of behaviors we might call socially responsible.

So, we are not going to forego the course.
Instead, we will try to evaluate Friedman's claim.
First, we get some grounding in the details of the Enron case.
We then examine the possibility of ethics, and moral motivation.
Next, we look at some ethical theories, some specific ways of thinking about morality.
At the end, perhaps, we will be able to decide if there is any need for ethics, beyond legality, in business.

VI. The Enron scandal and its victims

We are only going to have a short time to discuss Enron, barely enough to scratch the surface.
Still, I will try to hit some of the interesting ethical issues, in order to prepare you to write your papers, and understand the examples as we proceed through the course.

Enron was one of the largest companies in the world, employing 30,000 people, with over $100 billion in earnings in 2000.
They had projects all over the world, in about thirty countries including Argentina, Brazil, England, Nigeria, Turkey, India, and Japan.
They had divisions for wholesale energy, retail energy, energy trading, internet technology, broadband trading, and water management.
The company was named America's Most Innovative Company by *Fortune* for six years.
In autumn 2000, Enron's stock was worth over $90 per share.
One year later, Enron's stock was worth sixty cents.
Thousands of people lost their jobs in the scandal.
Even more lost their life savings.
One former Enron executive committed suicide.
The energy industry, indeed all of corporate America, changed profoundly after the scandal.
In November 2006, Enron sold its last asset, and will likely be dissolved.
The Enron name is now synonymous with greed, corruption, and ruin.
The scandal destroyed Arthur Andersen, one of the most storied and revered accounting firms.
Criminal lawsuits continue, though the major players have now been convicted.
The civil lawsuits will probably drag on for years to come.

Ken Lay was found guilty on ten charges, mostly involving fraud, though he died before sentencing.

Jeffrey Skilling was found guilty on eighteen charges, including fraud and conspiracy, for publically misrepresenting the state of the company.
Skilling has been sentenced to more than twenty-four years in jail.
Fastow pled guilty, and is serving six years in a low (not minimum) security federal facility in Louisiana. He was expected to serve ten years, but the sentence was reduced because he both showed contrition and gave extended depositions which helped convict Lay and Skilling.
Here's the link to Fastow's declaration:
http://images.chron.com/content/news/photos/06/09/26/fastow.declaration.pdf

Other people involved with Enron have pled guilty or been found guilty in a trial:
Rick Causey, the internal chief accounting officer: 5.5 years for fraud
Ben Glisan, Fastow's treasurer: 5 years for conspiracy
Michael Kopper, VP and Fastow's right-hand man: 3 years for money laundering and conspiracy
Ken Rice, the chief of broadband who pled guilty to securities fraud and awaits sentencing
Joe Hirko, was acquitted of insider trading and money laundering, but awaits retrial for fraud
and others.
The Houston Chronicle has a nice scorecard, as does the Times.
http://www.chron.com/news/specials/enron/
http://www.nytimes.com/ref/us/20061023_ENRON_GRAPHIC.html