

2.5: Summary and Exercises

Summary

Doing good business requires attention to ethics as well as law. Understanding the long-standing perspectives on ethics—utilitarianism, deontology, social contract, and virtue ethics—is helpful in sorting out the ethical issues that face us as individuals and businesses. Each business needs to create or maintain a culture of ethical excellence, where there is ongoing dialogue not only about the best technical practices but also about the company’s ethical challenges and practices. A firm that has purpose and passion beyond profitability is best poised to meet the needs of diverse stakeholders and can best position itself for long-term, sustainable success for shareholders and other stakeholders as well.

Exercises

1. Consider again Milton Friedman’s article.
 1. What does Friedman mean by “ethical custom”?
 2. If the laws of the society are limiting the company’s profitability, would the company be within its rights to disobey the law?
 3. What if the law is “on the books,” but the company could count on a lack of enforcement from state officials who were overworked and underpaid? Should the company limit its profits? Suppose that it could save money by discharging a pollutant into a nearby river, adversely affecting fish and, potentially, drinking water supplies for downstream municipalities. In polluting against laws that aren’t enforced, is it still acting “within the rules of the game”? What if almost all other companies in the industry were saving money by doing similar acts?
2. Consider again the *Harris v. Forklift* case at the end of Chapter 1. The Supreme Court ruled that Ms. Harris was entitled to be heard again by the federal district court, which means that there would be a trial on her claim that Mr. Hardy, owner of Forklift Systems, had created a “hostile working environment” for Ms. Harris. Apart from the legal aspects, did he really do anything unethical? How can you tell?
 1. Which of his actions, if any, were contrary to utilitarian thinking?
 2. If Kant were his second-in-command and advising him on ethical matters, would he have approved of Mr. Hardy’s behavior? Why or why not?
3. Consider the behaviors alleged by Ms. Harris and assume for a moment that they are all true. In terms of core values, which of these behaviors are not consistent with the core values Josephson points to? Be specific.
4. Assume that Forklift Systems is a large public corporation and that the CEO engages in these kinds of behaviors. Assume also that the board of directors knows about it. What action should the board take, and why?
5. Assume that the year is 1963, prior to the passage of the Civil Rights Act of 1964 and the Title VII provisions regarding equal employment opportunity that prohibit discrimination based on sex. So, Mr. Hardy’s actions are not illegal, fraudulent, or deceitful. Assume also that he heads a large public company and that there is a large amount of turnover and unhappiness among the women who work for the company. No one can sue him for being sexist or lecherous, but are his actions consistent with maximizing shareholder returns? Should the board be concerned? Notice that this question is really a stand-in for any situation faced by a company today regarding its CEO where the actions are not illegal but are ethically questionable. What would conscious capitalism tell a CEO or a board to do where some group of its employees are regularly harassed or disadvantaged by top management?

SELF CHECK QUESTIONS

1. Milton Friedman would have been most likely to agree to which of the following statements?
 1. The purpose of the corporation is to find a path to sustainable corporate profits by paying careful attention to key stakeholders.
 2. The business of business is business.
 3. The CEO and the board should have a single-minded focus on delivering maximum value to shareholders of the business.
 4. All is fair in love, war, and business.
2. Milton Friedman meant (using the material quoted in this chapter) that companies should
 1. Find a path to sustainable profits by looking at the interconnected needs and desires of all the stakeholders.
 2. Always remember that the business of business is business.
 3. Remind the CEO that he or she has one duty: to maximize shareholder wealth by any means possible.

4. Maximize shareholder wealth by engaging in open competition without fraud or deceit.
3. What are some key drawbacks to utilitarian thinking at the corporate level?
 1. The corporation may do a cost-benefit analysis that puts the greatest good of the firm above all other considerations.
 2. It is difficult to predict future consequences; decision makers in for-profit organizations will tend to overestimate the upside of certain decisions and underestimate the downside.
 3. Short-term interests will be favored over long-term consequences.
 4. all of the above
 5. a and b only
4. Which ethical perspective would allow that under certain circumstances, it might be ethical to lie to a liar?
 1. deontology
 2. virtue ethics
 3. utilitarianism
 4. all of the above
5. Under conscious capitalism,
 1. Virtue ethics is ignored.
 2. Shareholders, whether they be traders or long-term investors, are always the first and last consideration for the CEO and the board.
 3. Maximizing profits comes from a focus on higher purposes and harmonizing the interests of various stakeholders.
 4. Kantian duties take precedence over cost-benefit analyses.

Answers

1. c
2. d
3. d
4. c
5. c

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