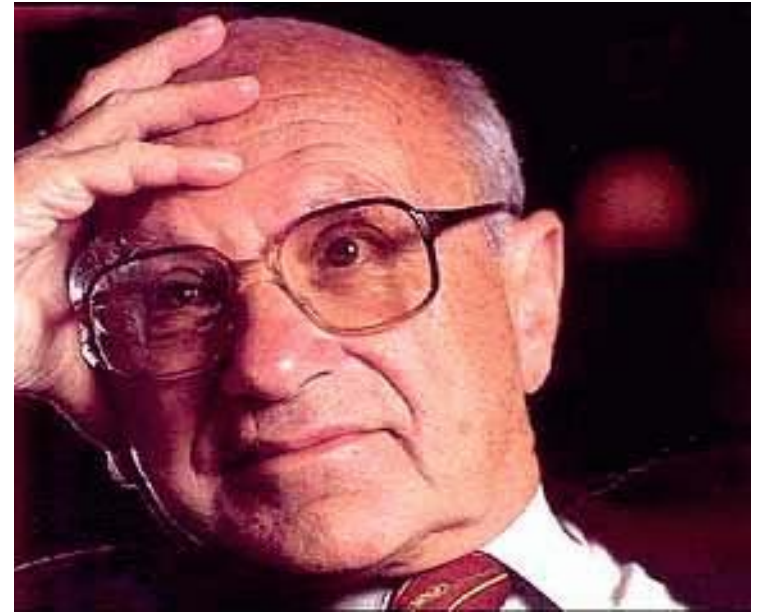

Values, Ethics and Business Decisions

International MBA – University Jiao Tong -Oct 2011

Business, Ethics and Profit: Economic Approaches

A Word From Milton Friedman

“There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud”



*The Social Responsibility of
Business is to Increase its Profit
(1970)*

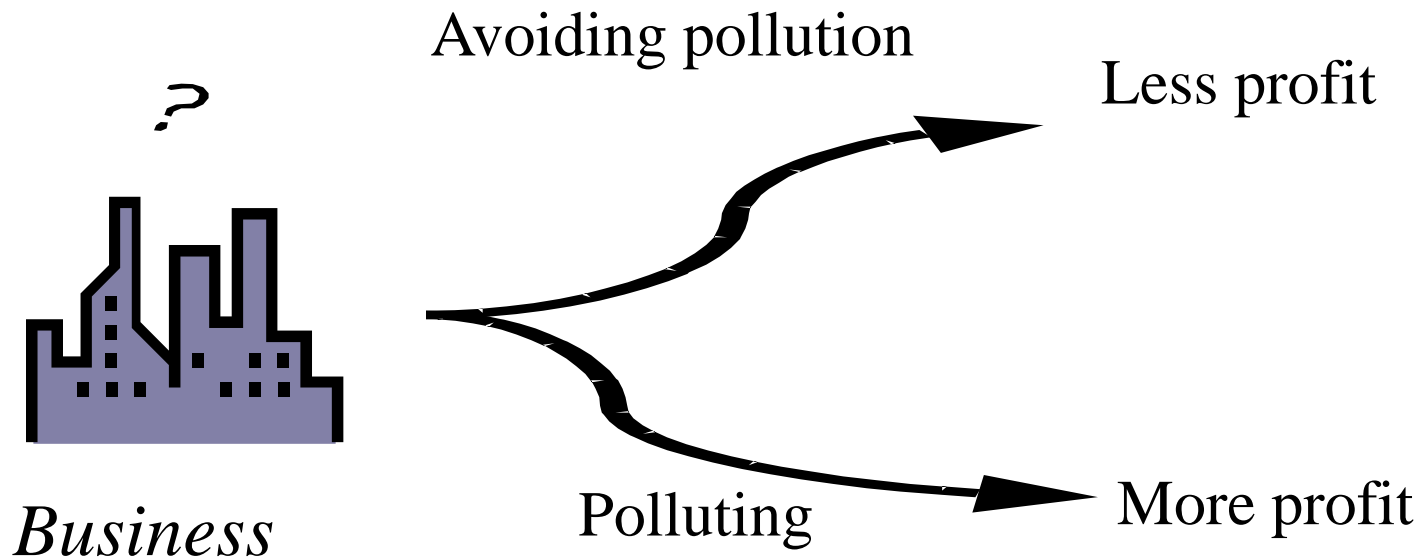
Menu

1. **Friedman's View of Responsibility**
 2. **Friedman's View of Law**
 3. **Friedman's View of Property**
 4. **Friedman's View of Management**
 5. **Friedman's View of Science**
 6. **Sen's view of ethics and economics**
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Responsibility

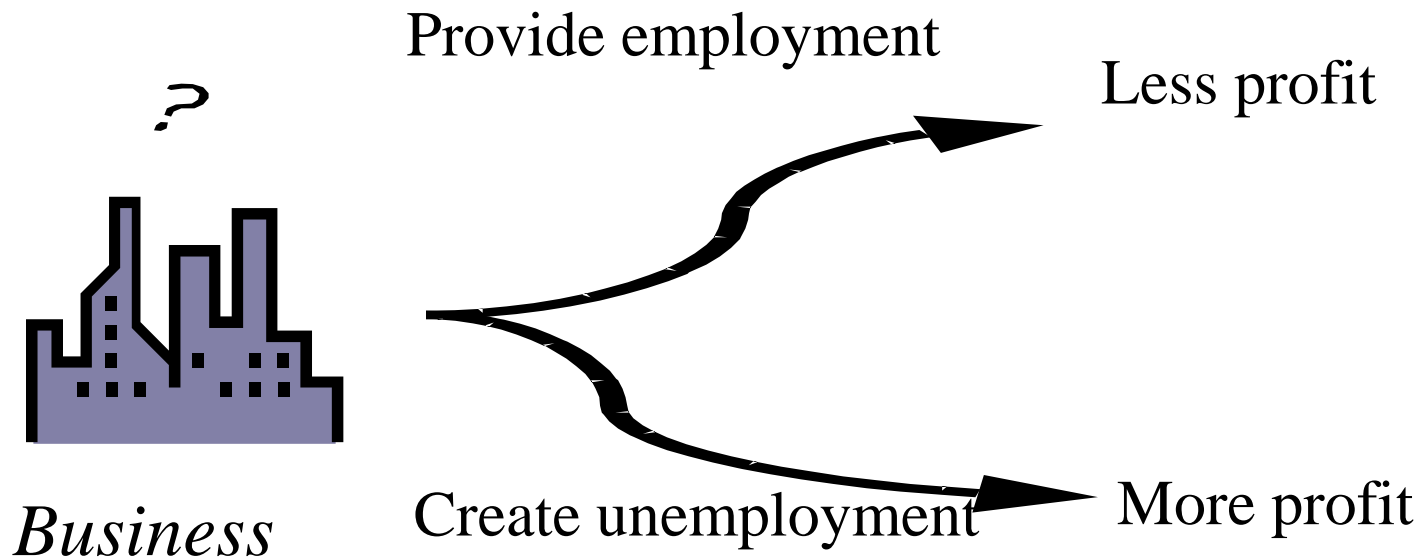
According to Friedman, what are social responsibilities business should not care about?

Friedman's View of Pollution



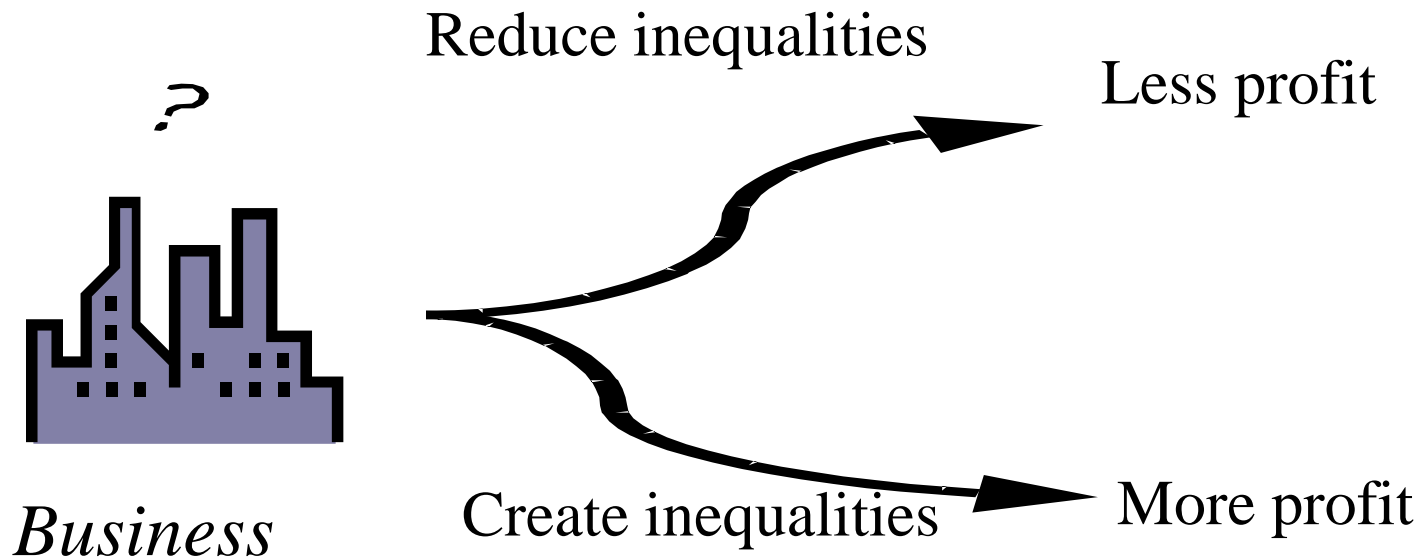
*Which behavior does Friedman prescribe?
Is pollution by business an issue today?*

Friedman's View of Employment



*Which behavior does Friedman prescribe?
Is employment an issue today?*

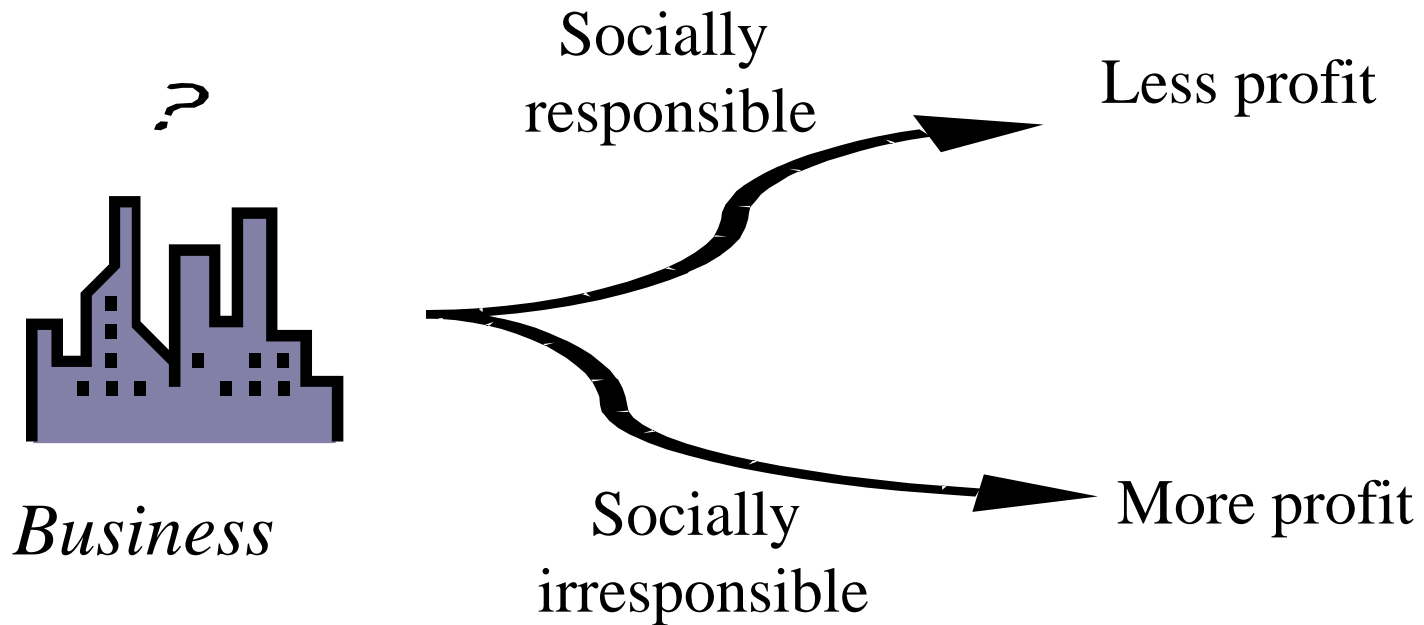
Friedman's View of Inequalities



Which behavior does Friedman prescribe?

Are inequalities an issue today?

Friedman's View of Responsibility



Which behavior does Friedman prescribe?

What do you prefer?

Reduced pollution
Less unemployment
Less discrimination

...

vs.

More profit

Which statement best describe your belief?

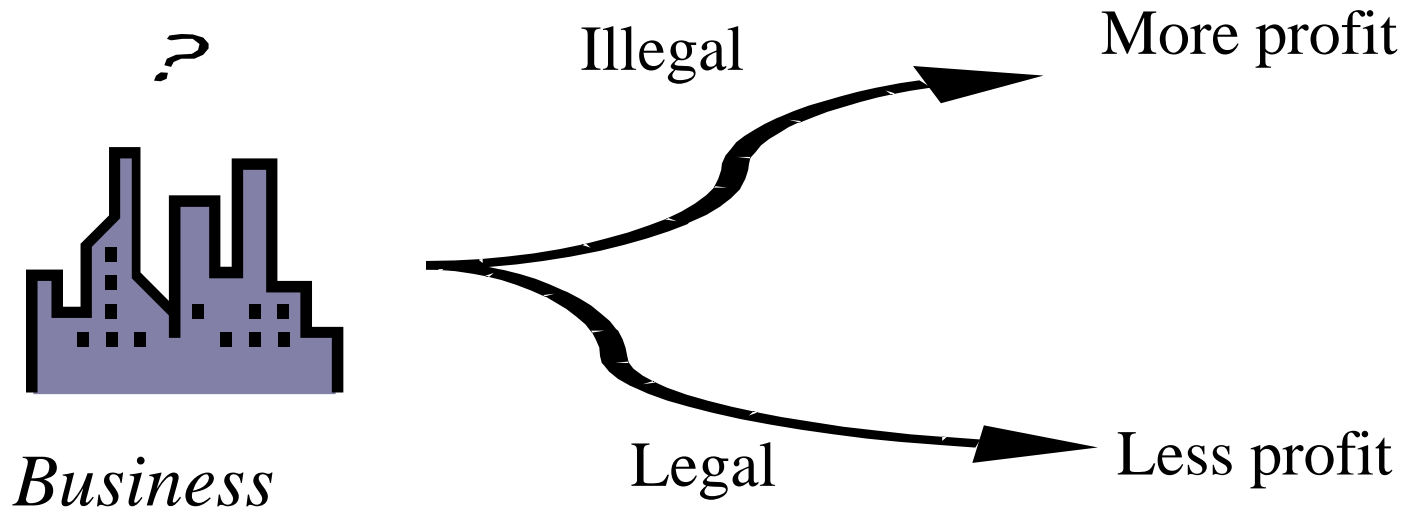
1. Such trade-offs never occur
2. Ultimately, profit reduces pollution, unemployment and discrimination
3. Business partly causes these consequences but is not responsible
4. Business is responsible for the consequences of business decisions but has no other choice than putting profit first
5. Me, as business leader, may prefer less profit but less of these bad consequences, but I do not have this option if I want to be successful
6. We can trade off some profit for some better consequences, the problem is where to draw the line

Law

According to Friedman, when should business respect the law?

Why?

Friedman's View of Law



Which behavior does Friedman prescribe?

Is Law Equivalent to Ethics?

		ETHICS	
		Ethical	Unethical
LAW	Legal	1	2
	Illegal	3	4

Find an example for each box

Property

According to Friedman, to whom belongs the wealth created by corporations?

Why?

Where is the difference?

- The people work the land and create the wealth
 - The lords own the land and take the profit
 - The people is exploited
 - The lords accumulate the wealth created by others
- The employees work in corporations and create the wealth
 - The shareholders own the corporations and take the profit
 - Employees are exploited
 - The shareholders accumulate the wealth created by others
-

Economic Aristocracy?

- That shareholders appropriate themselves the economic wealth created by companies is a *privilege* that is *neither fair nor efficient*.
- Like all privileges, it can be revoked so that economic wealth becomes distributed among those who create it.
- Democracy is the only political system we know to ensure this. It should be applied to the economic sphere.

From “The Divine Right of Capital” by Marjorie Kelly

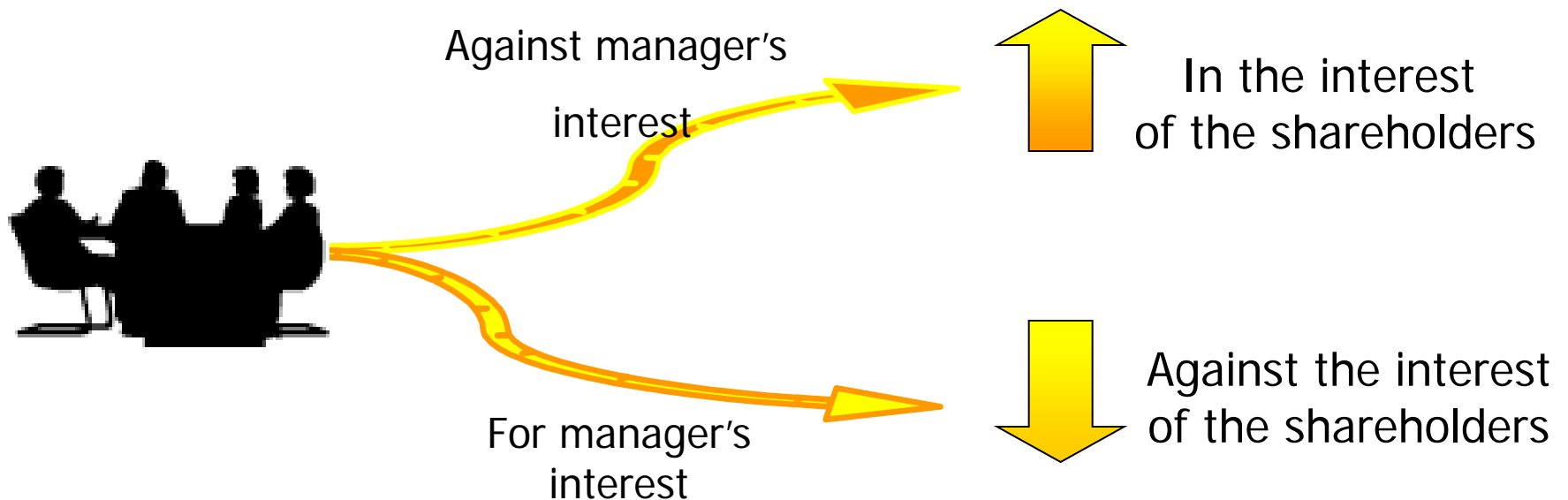
Why not democracy in business?

Management

According to Friedman, are managers serving shareholders or shareholders serving managers?

Why?

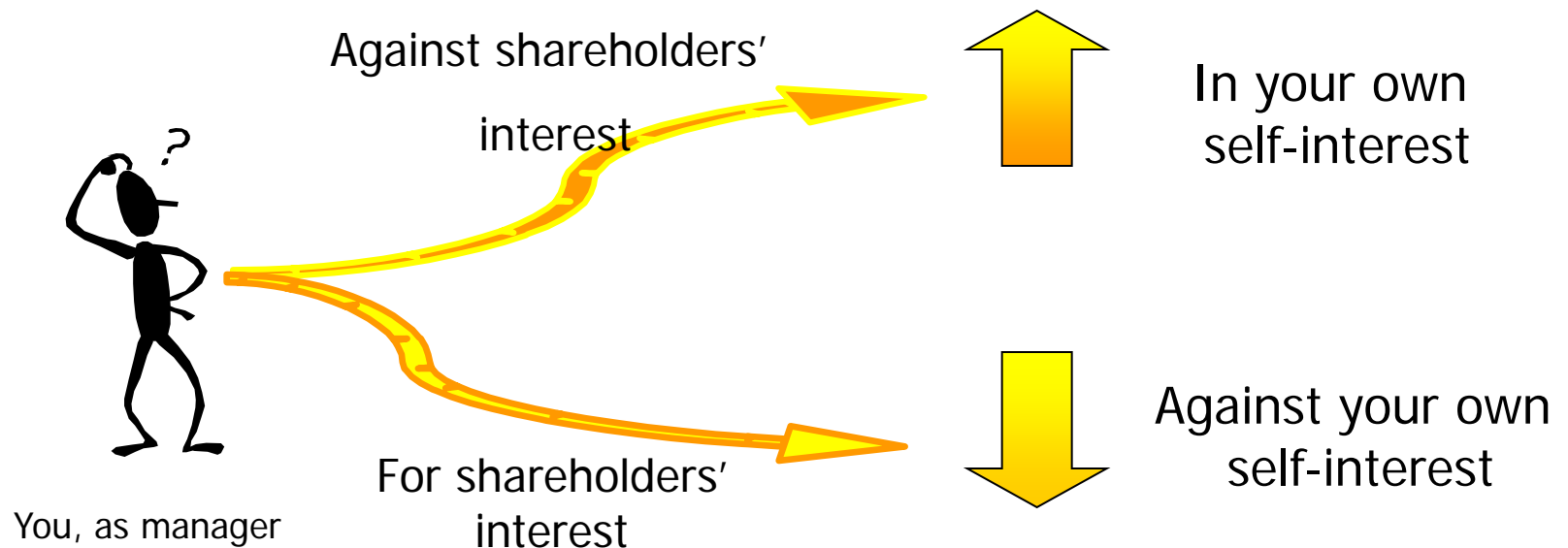
What about conflicts of interest ?



What behavior does Friedman prescribe?

How do you feel about this?

What about conflicts of interest ?



What behavior does Friedman prescribe?

What would you do?

Why is it said that corporations should maximize profit for shareholders?

Science?

A system of knowledge covering general truths or the operation of general laws especially as obtained and tested through methods that are replicable and whose results are independent of the scientists' opinions and subjective values.

Ideology?

A systematic body of concepts especially about human life or culture; a manner or the content of thinking characteristic of an individual, group, or culture; the integrated assertions, theories, and aims that constitute a socio-political program.

Propaganda?

The spreading of ideas, information, or rumor for the purpose of helping or injuring an institution, a cause, or a person; Ideas, facts, or allegations spread deliberately to further one's cause or to damage an opposing cause.

The Evolution of Economic Science

The importance of the ethical approach has rather substantially weakened as modern economics has evolved.



Amartya Sen, Nobel Prize 1997: *On Ethics & Economics* (1987)

Two Words from Amartya Sen

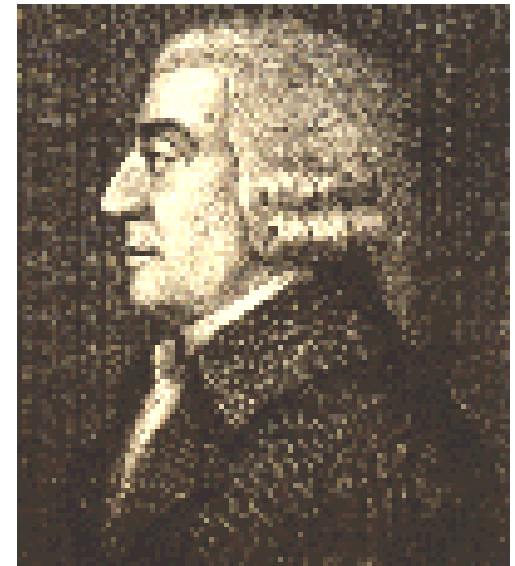
“The Free-Market System does not promote individual freedom”

“Capitalism has been distinctly less successful in shaping the political economy of a just society than in dramatically raising the average level of opulence.”



A word from Adam Smith

He is certainly not a good citizen who does not wish to promote, by every means in his power, the welfare of the whole society of his fellow-citizens.



Adam Smith: *The Theory of Moral Sentiments* (1759)

Sen on self-interest and moral codes

- Beyond mere self-interest, markets need moral codes, they have a role in:
 - non-exchange activities (such as production)
 - non-motivational aspects of exchange activities themselves
 - “(...) [T]o see all [successes of capitalism] as the unintended result of **pure greed** is to belittle the system altogether. Capitalism has made it possible to raise productivity by teamwork, by **co-ordination** and **co-operation**, and ultimately by **trust** in each other’s behaviour in economic and business relationships. Codes of behaviour have been central to this achievement.”
-

Sen on public goods and externalities

- Failures in allocation of resources when commodities are public goods and when there are externalities
 - are an argument for publicly owned enterprises
 - make a case for public regulations governing private enterprises
 - imply the need for the use of non-profit values – particularly of social concerns – in private decisions.
-

A Word from Aristotle



"Life based on achieving money begins as an obligation, but obviously, wealth is not the good thing we are looking for because it is merely useful and for other ends"