

Milton Friedman's arguments:

1. Only individuals have moral responsibility – CSR does not make any sense
2. Managers have one responsibility: act in the interests of shareholders
3. Social Issues that should be analyzed only by the Government

Mr. Carr – Most bluffing in business can be regarded simply as game strategy, much like bluffing in poker, which does not reflect on the morality of the bluffer. “Falsehood ceases to be falsehood when it is understood on all sides that the truth is not expected to be spoken”.

Morality is always present in any market but sometimes it is distorted.

E. Merrick Dodd – “Business is permitted and encouraged by the law because it is of service to the community rather than because it is a source of profits to its owners”. Gain as an end per se is not sufficient to ethically justify the existence of business in societies.

The **Ethical Gap** (difference between Society's Expectations of Business Ethics and Actual Business Ethics) is **increasing**. Ethical gaps are a major cause of vicious circles instead of virtuous circles, lack of creativity, innovation, lack of trust (intra and inter firm), opportunities lost due to lack of collaboration with stakeholders, negative auto-selection processes and low levels of employee/customer fidelity.

Tools we can adopt to help fill this gap (but these tools are not sufficient, we need ethical theories to distinguish between good and bad):

- **Laws** – ethics and law are at different levels and have a dynamic relationship;
- **Codes of Conduct** – law is too generic, any firm has its own peculiarities. Codes of conduct help decision making by providing ethical norms. The problem is to define exact rules for a multitude of situations. So the risk is that codes of conduct are too generic as well.
- **Consultants** – several companies prefer to externalize. But firms don't need a “guru” to know what's wrong and right in their organization.
- **CSR reports** – the reliability of CSR reports should be seriously questioned.

All of these 4 elements can be useful but **the real driver of ethics is individual conscience**. How can we leverage conscience to make ethical decisions? Ethical theories help to conceptualize problems and make decisions.

Is ethics in business profitable? In the short term non ethical behavior could pay. In the long term ethical behavior provides stability, customer and social trust which affects positively sales and operations. In the long term employees that work in a company that is perceived as ethical are happier, more productive and less inclined to change work, so there is a positive impact on internal stability efficiency and productivity. So being good is good. There is a payoff in the long run.

Michael Porter – “Strategy and society: the link between competitive advantage and CSR. CSR can be much more than a cost, a constraint or a charitable deed, it can be a potent source of innovation and competitive advantage”.

CSR is a concept whereby organizations consider the interests of society by taking responsibility for the impact of their actions on customers, suppliers, employees, communities and other stakeholders as well as the environment.

Carroll's four-part model of CSR: Economic and Legal (required by society), Ethical (expected by society), Philanthropic (desired by society). This model is very interesting to have an idea of CSR, but we need a finer grained perspective. We need a model which has descriptive capabilities and normative capabilities.

Freeman & Kant – “Property rights are not a license to ignore Kant’s principle of respect for persons. Hence, corporations and managers are ethically and morally responsible for the effects of their actions on others”.

The stakeholder theory of the firm – limitations:

1. Lack of normative, justificatory ethical theory (hypothetical contract/fairness theory)
2. Problem of stakeholder identity
3. Problem with ethical priorities

A **primary stakeholder** is significantly affected by the action of a firm. The problem is to operationalize the best measure for “significance”. To distinguish between primary and secondary stakeholders you have to look at one or more variables that are a good and reliable measure for evaluating the significance of the impact of a firm activity.

How can and should stakeholder theory reconcile conflicts of interests? **Stakeholder Engagement/Dialogue.**

Stakeholders Engagement – The idea is to allow managers to **understand stakeholders’ expectations**. It’s very difficult to involve stakeholders in decision making. Stakeholder dialogue is very different from being transparent.

Shell’s program was a disaster because it was not ready to answer all questions, it was only interested in gathering information and wash its public image. Redfin works in a more ethical way, more ethical commissions and more transparent system. Customers see themselves involved, they can easily understand the ethical issues of business and customers know they can modify the business. Redfin wants to enter a new market and to denunciate immoral practices, all stakeholders, but competitors, will be allies. Shell tries to acquire information from stakeholders but it is not available to modify its position. With the exception of competitors, all stakeholders will be enemies.

CSR worldwide initiatives (UN Global Compact and the European Alliance for CSR) – principles of the UN Global Compact are very generic. They can be used in the case of international disputes, cultural heterogeneity, but also for “green-washing”. Can be used as a reference to the analysis of day-to-day situations. The problematic process is from the general to the particular, disagreement mainly (if not only) on the operationalization of the principles. CSR initiatives per se are neither good nor bad. They can be leveraged for marketing or for real social development. They can help to converge and integrate complementary synergies, in many cases it’s necessary a global approach. There are cases where CSR initiatives have dramatically changed the social scenario.

Conflict of Interest (core dilemma in Enron case) – can be defined as any situation in which an individual or corporation is in a position to exploit a professional or official capacity in some way for their personal or corporate benefit. They can be self-dealing, outside employment, family interests, gifts.

Conclusions Enron case – even the smarter guys of the room can lose the control, there is always a network behind these scandals, conflict of interest by definition associated with corruption, policies are not always effective the problem is individual choice.

Normative Ethics Theory – normative ethics is distinct from descriptive ethics theory as the latter is an empirical investigation of people’s moral beliefs. Descriptive ethics would be concerned to determine what proportion of people believe that killing is always wrong, while normative ethics is concerned to determine whether it is correct to hold such a belief.

3 important points:

1. What is ethics? The subject of Moral Philosophy is human action directed towards an end, or man, as voluntary agent towards an end.

2. Moral Acts – Every human action that proceeds from deliberate reason, if it be considered in the individual, must be good or bad.
3. The objective of scholastics – Join in faith and reason

Theological virtue are directly related to God: Faith, Hope, Charity

Intellectual virtues: in speculative intellect – intelligence, science, wisdom. In practical intellect: art, prudence

Moral virtues: justice, temperance, fortitude

Corporate Transparency and Thomas Aquinas Ethics: ethical justification for corporate transparency: instrumental justification (social trust), due causes, the eschatological value of the truth. Regulation between extremes: prudence, justice, truth, studiousness. The Ethics of Saint Thomas is a complete **normative model**. It relies on the concept of virtue. Virtues allow us to find a policy solution to common day-to-day problems. A recent issue resolved through Thomas Aquinas Ethics is moral justification and prescriptions about corporate transparency.

Descriptive Model of Decision Making: descriptive models are focused on explaining why people act in a certain way instead of another. They try to point out two main issues: the stages in decision making people go through in addressing an ethical issue and the environmental factors affecting ethical decision making process. Ethical decision making is described as a four-step process that are influenced by individual and environmental factors:

1. Recognize a moral issue
2. Make a moral judgment
3. Establish a moral intent
4. Follow a moral behavior

Individual Influences on ethical decision making:

- Age and gender (mixed results)
 - National and Cultural characteristics
 - **Education and Employment** – the type and level of education matter! Previous experience does not.
 - **Psychological Factors**
1. Cognitive moral development – the idea is that different levels of reasoning can be applied by a person to ethical issues and problems. There are three levels: in the first level the individual exhibits a concern just with self-interest, external rewards and punishment. In the second one the individual does what he is expected by others. In the third level the individual is developing more autonomous decision making based on principles of rights and justice rather than external influences.
 2. Locus of control – refers to the extent to which a person believes she has control over the events of his life.
 3. Personal Integrity (also an individual influence) – integrity is the willing to adhere to moral principles or values. The higher the moral integrity of a person, the higher his reliability in the working environment.
 4. Moral Imagination (also an individual influence) – the ability to imaginatively discern various possibilities for acting in a given situation and to envision the potential help and harm that are likely to result from a given action. There are four necessary mental processes to support moral imagination: disengage oneself from one's role, one's particular situation or context, becoming aware of the kind of scheme one has adopted and that is operating in a particular kind of context, creatively envision new possibilities, possibilities for fresh ways to frame experience

and new situations to resolve dilemmas, and evaluate old context the scope or range of conceptual schemes at work, and new possibilities.

Ethics and Human Resource Management

- I. **Processes and attitudes** – a good working relationship is fundamentally based upon right organizational processes and structures to guarantee fairness, respect of human dignity and efficiency. Fair rules can be guaranteed by: the structure should be balanced, fair distribution of responsibilities, working load, retributions, etc., procedures that allow adjustments of the organizational equilibrium and support processes for less capable people. Developing a trustful and confident organizational climate is a necessary condition to combine efficiency and ethicality. Recent studies demonstrated that higher degrees of perceived procedural justice by employees lead to higher efficiency, productivity and propensity to innovate organizational processes and activities.
- II. **Hiring** – most of organizational issues are caused by inappropriate hiring practices. Ethical issues related to this are: offering low wages to people that have financial problems, offering low wages and a lot of dreams, exploiting information asymmetries and non-meritocratic hiring processes.
- III. **Group dynamics** – they can improve or destroy individual ethic intentions: collusion of the majority to impose a minority to work, the slavery of talented, “it’s not my responsibility”.
- IV. **Salaries, promotions and gifts** – these are three main issues of the organizational life. The salary should respect the productivity of the individual, his contribution to the firm. Promotions should respect people’s progress and contribution. Gifts from customers to suppliers and “golden parachutes” are also ethically ambiguous.
- V. **Executive education and training** – supporting employees to acquire additional background is not a problem per se but it can be leveraged for other purposes and to slow career progress. “Brain drain” can also happen, when the employee receives an offer from a competitor.
- VI. **The golden slavery** – Giving really good benefits but ripping off all the employees potential by making him work too hard, long hours and little holidays.

“**Blowing the whistle**” is one of the most controversial issues in business ethics and CSR. It creates a break between who denounces a fraud or unethical behavior and the group of people who committed it. Whistleblowers should be protected because they can avoid the persistence of frauds, but the risk is that they can lose their jobs.

Deutsch Telekom – what should be done? **Stakeholder-focused Adaptive Strategy** – Scan strategic stakeholders expectations and differences, check alignment between strategy and stakeholders expectations and stakeholder engagement (narrow).

Some Typical Problems in IT Innovation – Information Ethics & Media Ethics cover a variety of ethical issues like: Privacy, Information Reliability, Security, Transparency and Digital Divide (division of the world in two parts – those who have internet and those who don't. It is important because of the disconnection between the virtual firm and the real world, electronic subsidiarity and solidarity is compromised, communication to stakeholders cannot be only through ICTs and employees can have as only possibility of Internet-access the firm).

Guidant Case – Information disclosure, crisis management, high tech context – reverse path approach. Corporate crisis, time matters! We should map critical assets, have a crisis management plan and self-reinforce stakeholders networks.

Main Ethical Issues in Advertising:

I. Manipulation (Information)

- **Spreading false or illusory information** – unfortunately a lot of people don't believe that "truth sells". The problem is instead when advertisement attempts to create a distortion of reality or hide important information concerning the product or service sold by the company. The value to respect here is product/service transparency, making the customer conscious of what he is going to purchase.
- **Exploiting "mirages" (illusions)** – the advertisement associates a product with something unrelated. The idea is to create a subliminal association between the product and the mirage (whose features are generally very common and reproducible).
- **Switch selling** – advertising a product that is not available or in a very limited number to attract clients and once the customer arrives trying to sell an "identical" product.
- **Comparative advertising** – this does not have a problem per se if anyone provides real and trustful information which respect individual/organizational dignity. The EU directives impose three conditions: providing trustful information, providing information that does not confuse the customer and it should not be offensive.

II. Offensive advertising

- Defamation – insulting the dignity of others is clearly non ethical
- Aggression – advertising can also be aggressive for contents, and images
- Political correct? – sometimes it's very difficult to evaluate certain claims for political correctness. How can we define the edge between "offensive" and "not offensive"?
- Special products

III. Creating false needs

- Information is used to manipulate the people's conscience and to create a false need. Consumers more exposed are children, people with low education background, teenagers, people with diseases and older generations. A subtle way to develop false needs is leveraging people fear. Manipulation of risk perception, by insurance, banks, etc.

Business Ethics can be leveraged to resolve important social issues – a negative conceptualization is based on reactive approaches. Business ethics can resolve ex ante many problems analyzed in conflict management. The point is that we can do whatever we want, the problem is creativity, problem solving and scenario analysis skills.