

Ethical Issue

Yeimi Chavez

Salt Lake Community College

Business Ethics (BUS 1040)

Professor Matt Hatcher

1 May 2018

Ethical Issue

“I would like us to think about it more explicitly, and not take our intuitions as the given of ethics, but rather to reflect on it, and be more open about the fact that something is an ethical issue and think what we ought to do about it”. (Peter Singer).

Ethics cannot be divided into what is right and what is wrong, there is always a grey area that exists and that is where the concept of ethics gets complicated. The interpretation and misinterpretation of ethics has existed for as long as we can remember, but it is now in the society that we live in today where ethics has become a major part of how we interact in business. Therefore, this essay will discuss the ethical and social responsibility of businesses and whether or not they are towards the business itself, or they have their stakeholders needs and wants in mind. Are businesses main goal to increase profits no matter the cost? Or do businesses always make decision based on just their own code of ethics and conducts, even if no profit is gained? This essay will also relate these concepts with the corporation Goldman Sachs Group Inc.

Background

Goldman Sachs Group, Inc. was founded in 1869 and they have become a leading investment banking, securities and investments management firm on a global scale. They provide financial services that range from corporations, financial institutes,

governments, and individuals. (Goldman Sachs, 2018) But just like they provide various financial services they have also been involved in various ethical scandals that relate to the ethical and social responsibility of businesses.

It was not until 1999 when the Goldman Sachs Group Inc. went public, but it was not until the early 2000s that they started to earn their reputation because of their ethical lapses. One of their most conversational lapses was their involvement in the 2008 financial crisis. Where they conducted serious misconduct in falsely reassuring investors that the securities that they sold them were backed up by sound mortgages, when that was far from the truth and they knew that they were full mortgage that had a 100% rate of fail. Just like many corporations, Goldman defended themselves initially claiming that the money was lost on Abacus (a deal with Paulson and others), but emails were later released by a Senate subcommittee that showed Goldman executive “how they expected to make “serious money” by shorting the housing market”. (Mattera, 2017.)

Profit vs Own Code of Ethics and Social Responsibility to Stakeholders

Alex Edmans a professor of finance at London Business School in his Ted Talk, *The Social Responsibility of Businesses*, states that the conventional view of a business is exclusively to earn profit but in order to earn profit they need to care about society. They need to create high quality products, or they lose customers. They need to treat employees fairly, or they end up with no employees. No business has no plan not earn

profit, it may be something that is not directly stated, but it is always known. They would not bother trying to run a business if they are just setting themselves up for failure. Edmans acknowledges that profit is good, but it is not the end goal it is only a byproduct. In today's society business serve a purpose, once they know what purpose they are serving, they will see that profits come naturally.

Goldman Sachs Group Inc. in their code of ethics state that "... we select our people based not just on their skills, accomplishments and potential, but also on their principles and values". (Code of Business Conduct and Ethics, 2018) They give them a baseline of what they expect ethically behavior from each employee to look like. This shows that if any business in their code of ethics and conducts states that earning a profit is a must, employees should evaluate at what cost does that mean. At the cost of ignoring their own code of ethics? At the cost of stakeholders? Or simply at the cost of the reputation of such business?

Peter Drucker a management consultant, educator, and author shares a similar view as Alex Edmans. In his book *The Practice of Management*, Drucker states that the valid definition for a business is to "create a customer". Because they are the ones that determine what the business purpose is going to be and if it is achievable. Businesses main purpose should not be profit, yes, it is common sense to think that it is, but what Drucker is trying to say is that if you cannot create your ideal customer for your business how do you expect to stay in business for long and earn a sustainable profit. Curt Carlson an American businessman and founder of Carlson once said that you

need two things to obtain super success. “First... get the very best people you can find to help reach your goals... second, learn how to delegate well”. (Haroldsen, 2005).

Learning how to delegate I believe is essential for business, especially when it comes to your personal ethics and the code of ethics the business is running by. You cannot delegate your own personal ethics in business, even if you mean no harm and are just trying to see the business grow. If you are in a leadership position you need to take all the factors into consideration and see what is beneficial for the business to strive, and there are going to be times where the businesses code of ethics and conduct might fall in the grey area of ethics and you are going to be placed in a tough situation. In the book *Honest Works*, it shares that social responsibilities should be placed upon the business and they should not become “social responsibilities of individuals”. (Ciulla, 2014). This should help businesses and corporations stray away from acting unethically in business.

Freeman, R. Edward a professor of strategy, ethics and entrepreneurship at the Darden School of Business and Heather Elms an associate professor of international business at the Kogod School of Business, argue that the social responsibility of business is to “create value for stakeholders”. Stakeholders do not just apply to customers but also their suppliers, employees, and community. Thus, allowing businesses to open new paths for them to hopefully succeed in.

“Profits follow from having suppliers who are committed to making a company better, and employees who are inspired to work together to create something of value. And if a business is not a good citizen in its community, at least in a free society, people will use the political process to regulate the business closely and even prevent it from operating within community borders.” (Freeman and Elms, 2018).

This claim shows that businesses do not need to neglect their code of ethics if they keep in mind their stakeholders needs. Goldman Sachs Group Inc. code of ethics states that “Our experience shows that if we serve our clients well, our own success will follow.”(Code of Business Conduct and Ethics, 2018). It really shows that profit and the social responsibility of ethics and stakeholders, is not something that at times needs to fit in the grey area of ethics. Businesses do no need to strive for profit by violating their own code of ethics and ignoring their social responsibility to their stakeholders.

Jack Welch, a CEO of GE from 1981 to 2001 shares a similar view as Freeman, R. Edward and Heather Elms. He views the shareholder value is just a byproduct, your stakeholders are who you need to have in mind when running a business, they are the ones that are going to lead you to your long-term profit. In 2009, he declared that shareholder value is

“the dumbest idea in the world. Shareholder value is a result, not a strategy... your main constituencies are your employees, your customers and your

products. Managers and investors should not set share price increases as their overarching goal... Short-term profits should be allied with an increase in the long-term value of a company.”(Denning, 2017).

In business you cannot always think about what you are trying to achieve or what goals you have set for yourself to accomplish. But rather you need to create a path to how you are going to achieve them. It is not always about the when, but it is about the how.

Conclusions

All claims found share the same view that profit is essential and an important aspect of a business. Alex Edmans claims that the conventional view of a business is exclusively to earn profit but in order to earn profit they need to care about society. So in order to be successful in business you cannot just care about money, because you will not be getting any money if you are not involved with society itself. Peter Drucker, view is that a business must declare a purpose in society, that purpose can be its social responsibility to its stakeholders, it should never be to gain profit. Society is the one that determines the success or the downfall of your business, you cannot ignore your code of ethics to your business in order to fulfill your own agenda. Jack Welch shared a similar view as Peter Drucker and included that your short-term achievements are the ones that are going to lead you to your long-term success and value of your business. Freeman, R. Edward and Heather Elms finding show that many business just care for

the people that are on top of the food chain as well as the shareholder. But one must not get confused between shareholders and stakeholders. Many unethical acts in business are done because they think that protecting themselves and their shareholders are going to be what keep the business afloat, which is far from the truth.

Resolution

With this ethical issue, the real conflict is knowing where you ethically stand in business and what are you willing to do in order to grow in your business. Rather than looking at profit and your social responsibility to your stakeholders and your own code of ethics as two separate things. With the research that I have conducted, I have decided that you should not neglect your code of ethics in order to gain profit, because if you set your code of ethics in your business and you are aware of your social responsibility to your stakeholders than profit should show up naturally in your business.

Works cited

Ciulla, Joanne B., et al. *Honest Work: A Business Ethics Reader*. Oxford University Press, 2014.

Code of Business Conduct and Ethics. Goldman Sachs, 2018,
www.goldmansachs.com/investor-relations/corporate-governance/corporate-governance-documents/revise-code-of-conduct.pdf.

Denning, Steve. "Making Sense Of Shareholder Value: 'The World's Dumbest Idea'." *Forbes*, Forbes Magazine, 18 July 2017,
www.forbes.com/sites/stevedenning/2017/07/17/making-sense-of-shareholder-value-the-worlds-dumbest-idea/#3cd815982a7e.

Drucker, Peter F. *The Practice of Management*. Harper & Row, 1954.

Edmans, Alex. "The Social Responsibility of Business." *LinkedIn*, LinkedIn Corporation, 25 May 2015,
www.linkedin.com/pulse/social-responsibility-business-alex-edmans/.

Freeman, R. Edward, and Heather Elms. "Edward Freeman and Heather Elms | The Social Responsibility of Business Is to Create Value for Stakeholders." *MIT Sloan Management Review*, 4 Jan. 2018,
sloanreview.mit.edu/article/the-social-responsibility-of-business-is-to-create-value-for-stakeholders/.

"Goldman Sachs." *Goldman Sachs*, Goldman Sachs, 2018, www.goldmansachs.com/.

Haroldsen, Mark O. *The next Step to Waking up the Financial Genius inside You*.

Financial Genius Dba E-Business Benefits, 2005.

Mattera, Philip. "Goldman Sachs: Corporate Rap Sheet | Corporate Research Project."

Good Jobs First, 4 Feb. 2017, www.corp-research.org/goldman-sachs.