**[The curious case of business ethics — and why nobody can quite agree [[1]](#footnote-1)](https://ubwp.buffalo.edu/school-of-management-leadership/2017/04/26/the-curious-case-of-business-ethics-and-why-nobody-can-quite-agree/)**

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By

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Several years before I returned to graduate school to earn my PhD, I was an upper-level manager for a well-known international company that had just completed a corporate management change and was beginning to restructure. A rumor was circulating in the company that most branch assistant managers — the lowest level managers in the firm — would be laid off as part of the new CEO’s plan. This rumor had reached the assistant managers who reported up to me, so I was swamped with questions about whether their jobs were safe. I promised to get to the bottom of it at an upcoming managerial retreat, where the new executives would take questions.

At the retreat, the CEO and his team gave several presentations about the company’s exciting future and the ethical standards the company held and promised to exemplify. But they gave few specifics about how the company would change, so at the end of the day I finally had to raise my hand and ask my question. The reply was simple and positive: “Please let your assistant managers know they’ve got a future with this company, so we hope they’ll continue their work.”

“Great,” I said. “They’ll be relieved to hear their jobs are safe.”

The executive quickly laughed and replied: “Oh, their jobs aren’t safe. We’re laying them off in three months. But we don’t want to lose them and their productivity in the meantime.”

I didn’t last long at the company after that, but was surprised by how many people did.

Some stayed because they couldn’t get better jobs or because it was all they’d ever done. Others debated with me over whether this course of action was ethical. I maintained that it wasn’t because we were lying to our team members. Colleagues insisted it was a complicated situation and that the best thing for the company, its stockholders and its (remaining) employees would be to get as much as possible out of those assistant managers in the time they had left — in other words, the good of the many over the good of the few. Though it would hurt the people being laid off, it would be helpful for other employees in the meantime and ultimately benefit the people the business was formed to benefit: its owners and stockholders.

**What are business ethics?**

Research has shown that our approach to business ethics — and ethics in general — is mostly intuitive. That is, the vast majority of us don’t judge whether a situation is ethical by thinking it through or considering the facts and context; rather, we intuitively reach a conclusion based on our preferences and deep-seated beliefs, and proceed to verify and vindicate our choice by carefully selecting facts that best support us. An obvious example of this is politics: Some individuals instinctively back their political party’s position, regardless of the merits of individual issues. While we are capable of reconsidering our intuitive moral judgment based on opposing evidence, this rarely happens because we are uncomfortable with questioning or doubting our moral judgment. Instead, we choose to ignore disconfirming evidence and push forward. This, of course, is dangerous in our personal lives and in organizational leadership, when our decisions impact employees, customers and communities, as well as owners and stockholders.

Which brings us to a key question for leaders: What are business ethics? Most people answer, “Doing what is right,” but that fails to tell us exactly what is right — and what is wrong. Some colleagues at my old job felt it was ethical to lie to the assistant managers for the good of the company, whereas I thought being honest was more ethical. Martin Shkreli, CEO of Turing Pharmaceuticals, recently called himself “altruistic” for hiking the price of a lifesaving drug by more than 5,000% to raise capital to increase research, development and dividends. In a less extreme case, Apple marks up iPhones by about 300%, generates exorbitant profits and keeps billions of dollars overseas to avoid U.S. taxation. Opinion is widespread against Turing, but Apple has many defenders who say its management is simply doing what’s best for the company (and their happy stockholders).

**Contrasting views**

Two views on business leadership and ethics have emerged over the past few decades: a stockholder-centric view, led by economist Milton Friedman, versus a stakeholder-oriented approach. The former claims the most ethical thing for a business leader to do is to focus with laser-like intensity on profits to the exclusion of all other stakeholders, to the legal extent possible. Friedman argued that even donations to charity and other corporate social responsibility initiatives are unethical, as they amount to “stealing” resources that rightfully belong to company owners and stockholders. He claims that if stockholders and owners wish to donate their profits themselves, that is their right, but management has no mandate to give away their money.

The stakeholder approach, on the other hand, argues that customers, employees and communities are not only valuable stakeholders in and of themselves, but are also the best route through which to grow stockholder value. This approach is exemplified by a style of leadership called servant leadership, in which leaders see themselves as servants of these broad groups of stakeholders, working through them to grow their organization by listening, partnering and developing. Detractors claim that serving stakeholders and working to help employees (rather than coercing or simply ordering them) wastes vital resources and lacks a performance focus. However, this view arguably misses the primary point of servant leadership, which proposes that successful organizational growth and service to stakeholders form a mutually reinforcing spiral: Serving stakeholders contributes to organizational growth, and larger, more successful organizations can better serve stakeholders.

There is a growing body of research across industries, countries and cultures that shows the best way for organizational leaders to accomplish their mission and achieve profitability is, strangely, by focusing *less* on performance and *more* on service. CEOs who prioritize stakeholders, in general, have more profitable companies than CEOs who prioritize profits. Firms helmed by servant leaders have greater returns on their assets than those with typically charismatic or goal-centric leadership. And, my own research has uncovered evidence that servant leadership creates a trickle-down effect, such that managers and employees led by servant leaders become servant leaders themselves.

We may never completely agree on what is or isn’t ethical in business or in life more generally. Research indicates we are remarkably closed-minded in what we view as fundamentally right or wrong, even in the face of significant opposing evidence. But what shouldn’t be so subjective is what approach to ethics is in the best interest of an organization. Here, the answer for leaders is clear: By prioritizing employees, customers and communities, leaders build stronger teams and corporations — and stronger societies. That’s the promise of servant leadership.

The words of Dr. Martin Luther King Jr. are especially prophetic here: “If you want to be recognized — wonderful. If you want to be great — wonderful. But recognize that he who is greatest among you shall be your servant. That’s the new definition of greatness.”

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