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Corporate Ethics

by

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Ethics and Corporate Leadership

This paper explores leadership, social responsibility and business ethics. Business ethics have become a contradiction of terms due to the lack of accountability inherent in corporate structure. This an exploration of ethical theory is an attempt to demonstrate that corporations can be seen as leaders. If a corporation can be an actor and a leader it can be held morally accountable for the changes that it makes on the environment and society.

The working definition of a corporation that will be used in this paper is 'social entities that are goal directed, deliberately structured activity systems with an identifiable boundary.' The important components of this definition are that the corporation is comprised of individuals (social entities), that these individuals are assembled for a purpose (goal directed), in a structured environment.

Business plays an exceptionally dominant role in society. The largest 1000 firms employ about 24 million people, about one quarter of all working people in the United States. These firms make up the foundation of our economy. Business has the ability to affect unemployment, inflation and politics. It is because of this far reaching power of a corporation that business ethics are so fundamental.

The first section of this paper explores some general ethical principals. The second applies these principals to business.

Following this is an exploration of the issue of responsibility and the corporation. The next section is a basic overview of leadership theory and definitions. This is followed by an application of leadership theory to a corporation. The case study is to be used as a tool to apply the above issues in a working fashion. The final section is a discussion of the applicability of ethics and leadership principals to the case study. This section further explores the issue of responsibility and morality.

**Ethics.**

Before proceeding, it is important to separate the terms ethics and values. "Ethics provides the ability to decide right from wrong. Values drive an individual's decisions, emotions and actions. Values are learned through the experiences of life. Ethical norms derive from our values and provide criteria whereby one can make ethical decisions." Ethical theories provide some standard base from which to develop a personal theory.

John Stuart Mill and Immanuel Kant provide a sound background for investigation of secular ethics and moral philosophy. John Stuart Mill's Utilitarian Ethical philosophy underpins much modern thinking on ethics. Mill's Happiness Principle is defined as "an existence exempt as far as possible from pain and as rich as possible in enjoyments both in point of quantity and quality. . . the end of human action [happiness] is also the moral end. . ."

Mill assumes that human beings are capable of rational calculus. People must weigh the possible benefits and compare.

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3 Ibid.
them with the possible costs. To be morally sound the individual must choose the option which will produce the greatest good for the greatest number of people. The morality of an act is therefore determined by its outcome. If the outcome is good then the act is considered morally right. If the outcome of the act is bad then the act is morally wrong. Outcome in this sense includes a sum of the various positive and negative effects on different people.

There are two types of Utilitarianism, act and rule. In Act Utilitarianism the act is morally right if it maximizes utility. “If and only if the ratio of benefit to harm, calculated by taking everyone affected by the act into consideration, is greater than the ratio of benefit to harm resulting from any alternative act,” Act Utilitarianism is criticized on several important levels. One being that it is difficult to determine the long term outcome of any act. Another criticism lies in the difficulty of assigning values to an outcome for the purpose of comparison. Regardless of the difficulties inherent in Utilitarian ethics, it remains an important component of American ethics.

Rule Utilitarianism expands and reformulates act utilitarianism. Rule utilitarianism states that rules must be followed if they are the best choice in every situation. “An act is morally right if it is in conformity with a particular moral rule, and that rule is chosen because, of all alternative rules it maximizes utility.” Rules that insure maximum utility should be followed by everyone. The

6 Ibid.
7 Ibid.
problem inherent in this moral philosophy is that exceptions to any rule must be made if that maximizes utility, which falls back to Act Utilitarianism⁸.

In contrast to Utilitarian, Ethical Egoism emphasizes maximizing self interest. Ethical egoism is maximization of self interest within the confines of established laws and practices. An action is morally correct if it is in congruence with the law and is in pursuit of the individual’s self interest. Following the law perpetuates self interest because it allows the game of free enterprise to continue. But this is not the theoretical motive for following the law. The law should be followed to ensure that everyone has the same opportunity, hence the "ethical" component.

Both the Utilitarian ethics and the Ethical Egoists focus on the consequence of the action. In contrast, deontological ethical theories such as Kantian ethics, assert that the act itself has some intrinsic worth regardless of the consequence⁹. Worth or merit can be determined from self-reflection, intuition or rationalization. Kant was a rationalist. He proposed that ethics should be based on categorical imperatives. “Act only on that maxim whereby thou canst at the same time will that it would become a universal law¹⁰.” Note here that Kant is prescribing a law for all peoples in all societies. For an act to be moral, it must be moral in all circumstances.

The four propositions of Kant's theory are as follows:

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⁸ Ibid.

¹⁰ Ibid.
"(1) An act must be done from a sense of duty to have moral worth
(2) An action done from duty has its moral worth, not in the purpose that is to be attained by it but in the maxim according to which it is determined
(3) Duty is the necessity of an action done out of respect for the law
(4) The supreme principle is that to be absolutely good without qualification, there is nothing left to serve the will as principle except the universal conformity of its action to law11.”

Universal laws serve as a moral guide. The moral worth of an act is determined by the intent of the actor and the form or character of the action itself. Moral rules are developed to be followed always. This creates an convenient system of rules that require little thought. Yet it seems counter-intuitive to assume that there can ever be any rule that is always right or any act that is always wrong. But it is important to include the concept of inherent good and evil, as well as the motive of the actor, when developing an ethical frame.

These theories are very different from one another. And yet they some how become integrated to formulate our popular conception of morality. Morality can be derived from good intentions or positive outcomes. American morality seems to be highly relative. For example our expectations of behavior for adult and children are very different. Americans allow behavior for one sex that is looked down upon for the other. To understand this heritage we must look to the English system.

Our laws and values were inherited from English Common law. Our legal system is the direct descendent of the English system based

11 Ibid.
on the philosophy and teachings of the classical school. Jeremy Bentham, a founder of the Classical school changed the English legal system profoundly. Bentham believed that the goal of the legal system should be to stop criminal behavior. Bentham proposed a way to accomplish this based on strict determinant sentencing. Bentham saw humans as being capable of rational calculus. As rational calculators people choose not to commit crime if the possible punishment outweighs the possible benefit of committing the crime. If the punishment is certain and severe enough to discourage the rational calculator crime will end. This concept is called deterrence. Deterrence is central to the American legal system.

The legal system in America influences our concept of justice and morality. The utilitarian principle that people should weigh the possible positive outcomes and the possible negative outcomes before making a decision to act is also the basis of our criminal justice system. Punishments are designed to be certain and severe enough to deter the individual from acting in a criminal fashion. The crimes are publicly outlined so that people know both which actions are illegal and have a general idea of the penalty if caught.

This system allows the court to at least maintain the pretense of staying out of moral decisions. In fact many of our laws are expressions of values and ethics. America lacks a shared ethical theory currently. The judicial system serves to be a bare minimum for ethical standards while a new system is being created.

The complexity of the moral and ethical issue comes from the depth of its base. Ethical and moral values in America are influenced by religious values, legal codes, culture, and tradition. It is through this elaborate system that business must find a method of operation.

Application of Ethical Theories to Business

Utilitarian ethics seems to fit relatively well with the modern business in society. Everyone wants businesses to be doing what is right for the greatest number. The calculus to determine the morally right act would always factor in the employees, the consumers, society, the executives, etc. Each of these weighed equally would point to the best course of action for the greatest number. This allows for a great deal of flexibility when making decisions. The decision maker can evaluate every decision as it comes up. The problems with this again lie in the fact that it is difficult to calculate the long-term outcomes of an action. It is also impossible to weigh certain outcomes for comparative purposes.\(^{14}\)

Ethical Egoism is the Capitalist philosophy. Maximization of self interest within the boundaries of the law is the free enterprise system. This seems so quickly acceptable as a business ethic. Our economy is based on a free market system. The free market system is not based on the greatest good theory but on the ethical egoism theory. One rational problem with this theory is that there will be decisions that fall within self interest that are still intuitively wrong.

“Ethical Egoists claim that an act is morally right if and only if it tends, more then any alternative act open to the agent at the time, to promote the interests of the agent." There is no objective code. The speculative nature of this theory make it very difficult to apply in practice.

Ethical Egoism and Utilitarian ethics meet in an interesting way in the writings of Adam Smith and Milton Freidmen. Their argument is that individuals acting for self interest is the process whereby society is best served. Freidman argues that corporations have only one obligation - to maximize profits within the constraint of law and custom. He effectively unites the theories by arguing that the greatest good for the greatest number is achieved through the maximization of individual profit.

Kantian ethics and business are a little more difficult to connect. The categorical imperative presents several problems on a regular basis. To follow the Categorical Imperative one must accept that there are laws which must never be broken. One of these laws is that one should not lie, but intuitively there are circumstances when lying is morally right. One example of this would be if there were a life a stake and your lie could save them. Kantian ethics does give us the understanding that all moral judgments can not be made on the basis of consequence alone. Some consideration for inherent good or evil must be given.

Each of these theories is appropriate for making business decisions. An individual must chose a course of action knowing that

15 Ibid.
16 Ibid.
the choice will affect others. That individual must consider the quality of the action itself and the consequence of the action.

Responsibility:

It is unclear who must take responsibility for the actions of a corporation. Many people interact at different capacities to create a corporation. And it is this interaction that creates action of a corporation.

Responsibility is a complex issue outside of the corporate field. People have primary responsibility and indirect responsibility. Primary responsibility includes those actions which are directly related to carrying out one’s roles. One example of primary responsibility is a parent’s responsibility to their child. Indirect responsibility falls outside of direct role requirements. For example a primary responsibility of an employee is to fulfill their job requirements while the indirect responsibility of an employee may be to monitor coworkers’ behavior.

Government has a different sort of responsibility. The government is designed to protect society. It carries out this function through the criminal justice system, police force and the armed forces. The government must also pass laws to protect civil rights and human rights.

Corporate responsibility is an even broader area. Corporations are not people and yet they are personalized by thinking and laws. Legally a corporation can be held responsible for its products, its debts, and it environmental violations. Although there is only

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limited responsibility passed on to the individuals that run the corporation.

Milton Friedman\textsuperscript{18} argues provocatively that CEOs, managers and directors are not in fact responsible to society. Their responsibility is to the owners of the corporation. The owners of a corporation are its shareholders. This group is usually a diverse sometimes unknown group of investors interested in making a profit. "Corporate executives are employees of the owners, they are expected to conform to the basic rules of society. [But] their primary purpose and primary responsibility is to make as much money as legally possible for their investors\textsuperscript{18}.”

Friedman\textsuperscript{18} argues further that it is actually unethical for business executives to attempt to be socially responsible. First it is unethical to take the owners’ money for endeavors outside the realm of profit making. Friedman\textsuperscript{18} argues socially responsible action betrays the employees’ primary responsibility to the owners by taking away from the profit objective. If the individual wants to be socially active they can invest part of their salary in an organization designed for that purpose\textsuperscript{19}.

Although Friedman\textsuperscript{18} is correct in his assertion the primary goal of business is usually to make money, this does not have to be at the expense of the higher needs of society\textsuperscript{20}. Responsibility to the owners is not the only area of concern for management. Managers

\textsuperscript{18} Ibid.
have a responsibility to their employees, their consumers and the environment.

Freidmen also warns against the owners of a corporation trying to become socially responsible because it jeopardizes the political process. Corporations that act to change social policy are acting in violation of the democratic process\(^1\). The government is an elected body that passes laws and monitors society. That is the system that we have established as a republic. If a corporation were to act to change laws and influence society it would be acting out of place as an unelected public official.

Corporations venture into social responsibility neglect their profit motive and further disrupt the free market economy. "There is one and only one social responsibility to business- to use its resources and engage in activities designed to increase its profits so long as it stays with in the rules of the game, which is to say it engages in open and free competition without deceit or fraud\(^2\)."

Freidmen makes a good case for the responsibility of the employees being to the owners. But this leaves the question who (or what?) is responsible to society? Corporate structure provides one way to investigate this question. The owners are comprised of a diverse and fluid group of shareholders who tend to have little or no input into the day-to day policies of the business. The Board of directors elects a CEO who usually is held accountable by the board. The Board is responsible for the maintenance of an expected return


\(^2\) Ibid.
on investment for the investors. The CEO is responsible for the general running of the business. The employees are required to fill their job expectations.

In America the corporation is responsible for the integrity of its products. Strict product liability laws state that “the seller of a product has legal responsibilities to compensate the user of the product for injuries resulting because of a defective aspect of the product, even when the seller has not been negligent in permitting the defect to occur.” This law highlights two important issues. The first is that it is the outcome not the intentions of the actor which is important. This is based more on Utilitarian thinking then Kantian. The second important issue is that the law implies the corporation is an actor. The corporation is financially responsible for its actions regardless of intent. It is not very feasible to prove the intent of a non-human entity.

The owners are not responsible. The executive officers are not responsible unless their is a criminal element involved in some decision that they made. One example of this happening was the Ford Pinto case in the seventies. The executives were eventually not found guilty of criminal intent. But they were questioned for their moral integrity. It is apparent that in some way a corporation is an actor and therefore must be held accountable.

**Leadership Theory**

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23 Ibid.
Leadership is an amorphous concept. It has been defined by many authors. One text lists several of these definitions:

* The process whereby an agent induces a subordinate to behave in a desired manner (Bennis, 1959)
* Presence of a particular influencing relationship between two or more persons (Hollander and Julian)
* Directing and coordinating the work of group members (Fieldler, 1967)
* The process of influencing an organized group towards the accomplishment of its goals (Roach & Behling, 1984)
* Transforming followers, creating visions of the goals that may be attained, and articulating for the followers the ways to attain those goals (Bass, 1985)\(^{25}\).

Each of these definitions of leadership contains some element of direction and influence. Leadership is a process that contains many elements. The directional component of leadership indicates change. Leadership involves movement towards some goal. That can be defined by the group or the leader. The leader and the followers have a mutually influential relationship. This relationship can involve transactions, coercion, inspiration, guidance and teaching. The process of leadership takes many forms.

Most traditional leadership theory deals with the qualities of the leader. In the past the leader was the most important element of the equation. Leaders in Homers’ time were Great Men. Those that acted as leaders were chosen by the gods to fulfill that role.

The Greeks choose their heroes based on examples of physical perfection. Many still believe that the leader must be the smartest and the most popular. People attribute quality leadership to good personal characteristics like intelligence or personality traits. Some characteristics associated with quality leadership are dominance, self confidence, achievement orientation, dependability and energy level. 

More modern leadership theory focuses on the followers’ development and characteristics. For example Hersey and Blanchard’s Situational leadership model uses the maturity of the followers to determine the best leadership style to be utilized by the leader. Bass separates transformational and transactional leadership. Transformational leaders are charismatic and raise followers expectations through a strong emotional relationship. Transactional leaders offer an exchange with followers. They can motivate followers by outlining the expected outcome if desired actions are taken.

The third element of the equation is the situation. The situation can be the context or the task. Generally leadership theory deals with the context in so far as it affects the other two areas. The context can be examined as to how it may inhibit effective leadership or encourage effective leadership. The task can effect what type of leadership is needed. For example if the task is highly complex and structured one type of leadership may be needed. However if the task is new and creative a different approach may be in order.

26 Ibid.
27 Ibid.
Each of these elements creates the process of leadership. Leadership as a concept must be thought of as dynamic and complex. The many factors which interact can be adjusted and influenced by people, tasks and the environment. Modern leadership theory must include the conceptualization of a fluid leader. There are various ideas on who makes the best leader, how a leader should behave in a given situation, and how followers influence leader behavior. This concept needs to expand to include other entities that can act as leaders.

Business and Leadership

"A corporation is an association of individuals treated by law as having powers and liabilities independent of those of its members." A traditional conception of the leadership process in a corporation maintains that the company is the context, the executives are the leaders and the employees are the followers. However, a corporation is a distinct entity. As a distinct entity it has powers that include leadership over the managers and leaders acting within the company.

Leaders and managers are distinct concepts. This is not to say that they can not act as the other at times. Leadership and management are not mutually exclusive but neither are they mutually dependent. One author differentiates between the two:

* Managers administer: leaders innovate,
* Managers maintain: leaders develop
* Managers control: leaders inspire

Managers imitate: leaders originate

This list of characteristics of leaders compared to managers highlights some expectations of leader behavior. To apply these concepts to a corporation seems to be a bit of a stretch. Can a corporation inspire or originate? This necessitates the expansion of one's conception of leadership and a leader. A leader must be seen as a conglomeration of individuals expressed through the title corporation.

This conceptualization is consistent with our modern language when dealing with corporations. We speak of a company "leading the market in...", a company being a "leader among others" or refer to the leadership of a company in a community.

A model that places the corporation as a leader, has the employees as followers, and the external environment as the situation. This is not to say that leadership is not coming from the executives within the corporation. Individuals within the corporation act and change it, just as followers act and change leaders in other environments. The situation in this model is the political, environmental, and competitive environment.

A corporation as a leader is a difficult concept to grasp. Leaders are people with characteristics and traits which act on other people. Corporations have similar characteristics. Corporations have a longevity that outlasts any individual members. Corporations have a culture. 'Culture is defined as a set of values, guiding beliefs, understandings, and ways of thinking that are shared by members of

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an organization. Corporate culture can be defined by a statement of goals and values. Culture is practiced and perpetuated through tradition and rituals. The culture of the corporation dramatically affects the habits and work practices of the employees.

Some corporate cultures are based on adaptability to the environment. This indicated a focus on external changes in the environment as indicators of the appropriate course of action for internal changes. One example of this type of company is Detroit Edison. 3M is well known for its culture promoting exploration even at the risk of failure. Other example of culture include a consistence culture. This type of culture maintains a strict standard. Employees in this environment know exactly how they are to act and what to expect. Culture is one of a company’s leadership tools used to define the type and style of work to be done. Ethics are derived from values. A corporation's ethics are derived through it values, which are expressed in the form of a culture.

Other elements of the corporation acting as a leader include the development of technology. Many individuals work together under a corporation to develop products that surpass the imagination. These products are the results of a team of individuals who have worked together to create. The corporation is their leader in the sense that it dictate how work is done and supplies the goal of the work. Leadership roles are filled by followers frequently. In many groups the individuals with the characteristics or the knowledge necessary

31 Ibid.
32 Ibid.
may rise to a leadership position to take control. The boundaries of this fluid and dynamic process is the corporation.

Corporations are also leaders in society. Corporations can create a standard of excellence that must be met by others. Corporations challenge expectations and create needs. These are leadership roles. And this is a process of influence that is as profound as the most charismatic of individual leaders. Regardless of the designated role for corporations as simply economic institutions, corporations act in other realms.

This conception of the company as a leader is essential for the investigation of corporate ethics. Corporations are actors on the environment. Corporations directly influence the lives of its employees and society. It is important to begin looking to values and culture expressed by a corporation for evidence of moral character.

**Case Study: Abbott Laboratories**

"On December 10, 1978, Abbott Laboratories received notification that the Religious of Jesus and Mary, a Catholic order holding 100 shares of Abbot stock, would present to the company shareholders at the upcoming annual meeting a proposal to establish a review committee to oversee the company's promotion of infant formula in developing nations. The proposal submitted read in part:

Whereas medical testimony before the US Senate linked higher levels of infant mortality and disease to bottle feeding in unsanitary and poverty connotations.

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WHEREAS expert testimony also confirmed that the promotion practices of infant formula and milk companies encourage women to abandon breast feeding in favor of expensive commercial preparations and feeding bottles,

WHEREAS the management of Abbott/Ross has shown concern for the misuses inherent in marketing baby formula in environments characterized by lack of income, education, sanitation and medical care,

THEREFORE BE IT RESOLVED that the shareholders request the board of directors establish an Infant Formula Review Committee having the following structures. . . “

The Company:

The company is a multinational manufacturer of pharmaceuticals, health care products and hospital products. In 1977 total Abbott sales were 1.24 Billion 33% of which were in 160 countries overseas. Ross laboratories, a division of Abbott Laboratories, (hereafter referred to as Abbott/ Ross) controls 55% of the infant formula market in the United States. It next competitor is Mead Johnson (a division of Bristol-Myers) which controls 35% of the market. In the overseas marketing section of sales Abbott / Ross controls only 6% of the market in developing countries, an estimated 350 million in sales. The market in third word countries is controlled by Nestle of Switzerland with an estimated 60% of all sales. 34

Infant Formula History:
Physiological reasons explain why some mothers are unable to provide sufficient breast milk for their infants. Other mothers

34 Ibid. p 264.
prefer not to breast feed because of convention, work or for personal reasons.

Before the Industrial Revolution, almost all infants were breast fed. Women that were unable to feed, or chose not to breast feed employed wet nurses. Attempts at artificial feeding usually resulted in infant mortality.\textsuperscript{35}

Circa 1800 mass production of glass bottles fitted with nipples improved infant survival rates. But it was the later development of three things which made bottle feeding a success:
1) safer water supplies and sanitary standards for handling and storing milk
2) further development of easily cleansed bottles and nipples
3) alteration of the curd tension of milk through processing to make it more digestible by the infant \textsuperscript{36}.

To meet a growing demand for a breast milk substitute the company that later became Abbott /Ross developed Similac in the 1920’s. By the 1940’s two thirds of all babies in the US. were breast fed. Bottle feeding experienced its greatest popularity in the seventies when an estimate 50% of all infant in America were bottle fed.\textsuperscript{37}

Overseas Marketing:
Mothers in developing countries that chose to bottle feed generally used either formula, dried milk, or a mixture of indigenous food. In the late 1960’s health officials began to notice a correlation between the bottle fed babies and malnutrition and diarrhea. “ Certain health

\textsuperscript{35}Ibid.
\textsuperscript{36} Ibid.
\textsuperscript{37} Ibid.
officials drew a direct connection between this syndrome and the promotional practices of infant formula companies, although in the majority of infant morbidity and mortality cases the contents of the bottle were other than infant formula.\textsuperscript{38}

The three basic problems associated with bottle feeding are

1) the loss of the protective antibodies found in breast milk
2) potential misuses of the product through incorrect dilution and dilution with impure water\textsuperscript{39}
3) sterilization of the bottles and nipples requires the use of expensive fuel\textsuperscript{40}

Dr. Jelliffe, the head of the Caribbean Food and Nutrition Institute, first brought these charges to Abbott/Ross in 1970 during a meeting sponsored by the UN. Dr. Jelliffe called for the immediate withdrawal of infant formula from the third world market. The opposition, led by Dr. Monkeberg, director of the Institute of nutrition and Food in Chile, argued that more serious problems would be caused by the withdrawal of the formula. Dr. Monkeberg further criticized the study methods used to support the data connecting infant mortality and bottle feeding, pointing out that there was no control for sanitation, access to health care, maternal nutrition or urbanization\textsuperscript{41}.

\textsuperscript{38} Ibid. p 265.
\textsuperscript{39} Ibid.
Both sides acknowledged the need for some alternative to breast feeding yet would not agree on the type of advertising that was appropriate. At the time of the meeting most advertisement of the formula was either mass media, samples given to health care professionals or company employees who promoted the product in hospitals and in the home. Abbott/ Ross relied most heavily on promotion through health care professionals, while its competitors relied more on the mass media. Nestle used billboards depicting healthy white babies and wealthy white mothers using the formula to feed their infants.42

During the early seventies Abbott/ Ross participated in a number of international conferences studying the infant nutrition issue. The United Nations Protein Advisory Group (PAG) issued a report in 1973 stating that it was urgent formulas be developed to and introduced to satisfy the needs of those infant that are not being breast fed. It was also critical of mass marketing.43

In 1974 Abbot/ Ross published its own code of Marketing ethics for developing countries following the guidelines set forth in the PAG statement. Abbott’s code prohibited any form of mass marketing and emphasized the need for advise from health care professionals.

Controversy becomes Public:
In 1974 a Swiss action group published a pamphlet entitled *Nestle Kills Babies*. This drew international attention to the issue. In 1975

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US newspapers began publishing articles condemning Nestle for its involvement in the Third World Baby Formula Market. This eventually led to an international boycott of Nestle in 1978\textsuperscript{44}.

The US. Government got involved in 1977. The Committee on International Relations of the House of Representatives issued a report encouraging the promotion of breast-feeding in developing countries. In 1978, Kennedy's subcommittee on Health and Scientific Research of the Senate human Resources Committees held hearings on the sale and distribution of infant formula in developing nations. Representatives from Nestle, Abbott and Bristol-Myers were in attendance. Dr. Jelliffe, now the head of Population, Family and International Health in the UCLA school of Public Health led the criticisms of bottle feeding. His four arguments are as follows:

1) Economics- the purchase of infant formula places an unrealistic burden on an already poor family

2) Prevention of Infection from the antibodies carried in breast milk

3) There are more reliable and better nutrients in breast milk

4) Child spacing and population control are affected because nursing mothers are less likely to get pregnant\textsuperscript{45}

Abbott responded with evidence that infant formula had actually contributed to the health of infants in developing countries. Others argued that it was not in fact the availability of infant formula which


contributed to the increase of bottle feeding in developing countries. No conclusions were reached.

**Discussion of the Case Study:**

Some key points for this examination lie in the intricacies of the case. First, the fact that Abbott is not a major player in the overseas market, it is however an important part of Abbot's Sales. This establishes that the sale of baby formula in the Third World will continue much the same if Abbott pulls out of the market. Nestle controls a much more significant portion.

Utilitarian ethics are difficult to apply to this situation. Utilitarian ethics require that values be placed on the outcomes of each choice. But it is impossible to compare potential income to possible infant death. There is no way to say that risking the health of a few infants is worth the 33 million dollars in sales.

Second, Baby formula is sold in the United States, it has a viable market and no known problems associated with its use. In other words this is not a dangerous product inherently. There is no moral rule that forbids the sale of formula. The evil lies in the consequence of the act not inherent in the act itself.

Third, Abbott/Ross (unlike many of its competitors) did not advertise in the mass media. Abbott mainly utilized health care professionals for sale, promotion and distribution. In 1974 Abbott only utilized health care professionals. The corporation took the initiative to fulfill a socially responsible role. The problem was not the formula but the marketing of the formula. Marketing the
formula through health care professionals made Abbott dependent on them for promotion. Abbott also lost the name recognition granted by mass media advertisement.

This exercise of socially responsible leadership seems in contradiction to the ethical egoism moral theories. But it is important to consider the long term effect of the choice. Abbott never got publicly criticized for their involvement like Nestle. Abbott did not suffer any of the negative publicity that associated formula with the killing of babies. Imagine trying to market baby formula that the public thinks kills children in another country. In the long term the action was in the best interests of Abbott/ Ross. This is a key component of Ethical egoism. The long term best interests of the company or individual are the focus not short term gains.

Fourth, there is no conclusive evidence or answers that solve this problem. It is not beneficial to remove infant formula entirely from the third world markets. Nor is it appropriate to continue as it has been in the past. The problem with the formula is not the content of the formula.

Advertisement of the formula was the most noticeable problem. Mass media advertisement could not include all the directions and warnings necessary for proper use. Many of the women in developing countries can't read. The pictures that portray a happy healthy white baby on the rich mother's lap have a label which indicates that there are dangers associated with bottle feeding, etc. That is not real helpful to mothers who are largely illiterate.
The picture implies that the best choice is bottle feeding. This is false advertisement.

An interesting dilemma here is how solve the problem. Abbott approached the issue by limiting their advertisement to the health care professionals. This seemed to prevent the public outrage that hit Nestle. The effect that this decision has on the problem seems limited. Mass media advertisement of baby formula still takes place. And Similac is publicly available just not publicly advertised. Women who are seeking a formula still have access to that formula, without the advise of health care professionals. The only thing the Abbott stopped doing was participating in the potentially harmful advertisement campaign.

Did Abbott act as a leader in this situation? What ethical Principles are put forth? The answer to the first question is that yes Abbott did act as a leader. Abbott changed its sales policy in response to a problem. Abbott made this choice before it was mandated to do so by legal sanctions or public outrage.

Ethical dilemma are extremely complex and there is no easy way to find an acceptable solution. But since an in depth discussion of this ethics case is not the sole purpose of this paper it is time to move on to the investigation of corporate responsibility in relation to this case, a corporation as a leader and ethical leadership.

Discussion

This case study demonstrates some of the intricacies associated with ethics in a corporate environment. Another purpose of the case study is to explore the realm of responsibility and leadership. Finally
the goal is to assert that a corporation acts as a leader and can therefore be held ethically accountable.

First, intuition is an important tool in investigating a dealing with ethical dilemmas in everyday life. People get a feeling about something being right or wrong. It seems intuitively obvious that there is some problem with the sale and marketing of baby formula in developing nations.

Intuition does not develop out of some firm belief that the baby formula is bad. The formula is not the problem. The consequence of the sale of baby formula in the Third World is the problem. By Utilitarian standards, barring the above difficulties in assigning values, this action is morally wrong. The act is wrong because the way that formula was marketed led to babies getting sick. Now compare this to the definitions of a corporation and leadership.

"In 1866 the American corporations were declared to be a person in the eyes of the law. An entity, a "thing", was given the status of a human with all of the rights and privileges associated with such a position. This new status was not accompanied, however, with a declaration concerning any corresponding duties or responsibilities."

One way to address this issue lies in the conception of the corporation as public property or private property. If the corporation is seen as public property then moral responsibility and accountability rests on society. If the corporation is private

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47 Ibid.
property then the responsibility rests with the owners, directors and managers. Both have their strong points and weaknesses, which necessitates the new corporate responsibility.

In the case study, public outrage forced Nestle to change their policy. The public can voice their opinion through protest, publications, and boycotts. All of these methods were used to change Nestle’s practices. But it is difficult to assign moral responsibility to society because of the number of people involved. There can’t be any accountability if society is held responsible. However it is important to note that frequently the public does change corporate policy. In this sense society acts as monitor not as the responsible party.

Also it is irresponsible to wait for the public to hear of an issue and express their opinion. In the case study, it took eight years for the public to get actively involved in the issue. By that time Abbott had already changed their policy and addressed the most serious concern, advertisement. Clearly, Abbot felt some sort of responsibility that fell outside following the law and responding to society's wishes.

The company, made up of its employees and owners, have the ability to change the company and its policy. As a corporation however there is only limited liability for any person associated with a corporation. Those that determine the course of action must have some connection to the consequences of that choice. No individual person makes all the related decisions regarding a specific issue. The Chief Executive Officer responds to the advise of subordinates and the wishes of the owners. In this case the wishes of one group of
owners, the religious order, were made clear in a request for a review board to monitor the problem. And yet that small group of owners could not force Abbott to set up a board.

The managers and directors are the most logical choice for accountability because of their authority to create change. Legally and logically there are problems with this. The managers and directors do not always share the same idea of right and wrong. Decisions are made by multiple people at different levels. It becomes increasingly important to be able to assign responsibility to the corporation.

Assigning moral responsibility to a company seems illogical. It is not readily apparent that a non-human entity can rationalize or make choices. Corporations make choices through their managers, directors and owners. But those choices do not belong to the individual. They are the property of the organization. The individual in a particular office must act in accordance with the description of that job. Their decisions are not made under the authority of the office to fulfill that role. Individual office holders are replaceable in any company. It is therefore in the best interest of the director or manager to fulfill the expectations of that role. "The decision is regarded as the organization's decision even though it is made by certain individuals acting as its representatives." Decisions made by individuals in organizations belong to the organization because of the nature of corporate structure. The values and goals used to make the decision are the values and goals of the organization.

It has been established that corporations make decisions. It logically follows that a corporation must therefore be socially responsible. A corporation has other goals besides maximization of profit. It must also be concerned with long term survival and growth. It is therefore in the best interest of the corporation to aid society. A healthy society has many consumers, plenty of workers for the labor force, a sound education system to instruct the next generation of employees, and a working government to protect it. It is consistent with the goals of a corporation to act in a responsible way.

Conclusion

Corporations make decisions, influence society, structure jobs, produce, innovate and change. Corporations act as leaders. As a leader it is essential that a corporation be socially responsible. The individuals that are within the corporation must be held accountable for actions which fall outside the goals of the corporation. These actions were made from personal motives and for personal reasons. These actions are therefore the property of the individual. Any corporate goals that are not morally sound must be challenged by the ultimate power over a corporation, society.

It is through this model that the reality of a corporation as leader can be utilized by society to demand ethical action. Corporations are exceptionally powerful leaders that create immense change. An entity of this importance must be held accountable for its actions as a moral leader. Society and the legal system are one tool to hold corporations accountable for their action. The executives and directors can also hold corporations accountable.
Bibliography


