UNIT **2: Purpose of the Corporation**

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**Unit Background/Author Perspective**

Unit 1 examined general ethical issues. This unit looks at the first of many questions that are central to *business* ethics: “What is the purpose of a corporation? For much of our nation's history, the answer to this question was both simple and legally required: “To make money for the shareholders.” And, although no longer required by law, many companies continue to operate with an eye exclusively on the bottom line.

Many other companies, though, follow some form of the *stakeholder* model. Stakeholders are groups that have a stake in a firm's success. They include employees, customers, suppliers, the communities in which businesses operate, and other groups. Owners of a corporation (shareholders) are also stakeholders, but they are not the only group worthy of consideration under the stakeholder model.

In many circumstances, what is good for shareholders is good for stakeholders. A company with happy employees who are well treated tends to be more profitable. The same applies for a company with satisfied and loyal customers, and a company that operates in stable communities with strong labor pools and healthy local economies.

But some decisions pit shareholders against other stakeholders, and these are the difficult ethical questions. In such a case, should the shareholders “win,” or be given top priority, due to the fact that they put up their own money to make the company run? Or is it sometimes appropriate to give preference to other stakeholders, even if, in the end, the company makes a lower profit?

In this unit, we will identify various stakeholders. Then, we will evaluate a variety of situations which pit shareholders head-to-head with other stakeholders. Should employees be taken care of even if a company will lose money? Should a plant be kept open to protect a community if the company would make more money relocating the operation? Does a corporation have an obligation to give to charity and support projects that will benefit society? Does a company have an obligation to protect customers, even if it is not cost-effective? These and other questions will be examined.

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| **Unit Core Ethical Issues**   * Is a company obligated to protect the interests of stakeholders? * If owners (shareholders) and stakeholders collide, which side should take priority? Are owners obligated to listen to stakeholders? * Does a corporation have an obligation to care for its employees? What if the company can make a lot more money if it lays everyone off and “outsources” jobs? * Do organizations have obligations to the communities in which they operate? Are customers owed particular obligations by the companies they patronize? What if their safety is involved? |