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ETHICS AND MODERN BUSINESS

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BARBARA WEINSTOCK
LECTURES ON THE MORALS
OF TRADE

This series will contain essays by representative scholars and men of affairs dealing with the various phases of the moral law in its bearing on business life under the new economic order, first delivered at the University of California on the Weinstock Foundation.

ETHICS AND MODERN BUSINESS

I

IN the course of its history business has had a lurid variety of standards of behavior; and sometimes it has had none at all — not even the rather elusive brand called ‘honor among thieves.’ Today, when business standards are certainly higher than they have sometimes been in the past, they are nevertheless confused and contradictory and the basis upon which they have been built has been given little if any thought. Hence, while the main emphasis of this talk must be upon the side of practical business rather than of theoretical ethics, it will be necessary at the beginning, if we are to talk about business ethics at all, to come to some sort of understanding as to what basis of ethical judgment we may use.

In the first place we must make decision as to whether the basis for our judgments between right and wrong is to be authoritarian or personal — is to be taken from an external source or worked out and adopted within our own minds. We may accept as external authority the New Testament, the laws of the land, or the traditional standards of the business group within which we find ourselves at work; or we may have to rely upon our individual consciences. As for the New Testament, I think we can fairly say that while it gives us ideals upon which, and incentives with which to construct a basis for business ethics, it was written in an environment too far removed from the closely interwoven business world of modern times to give us anything much more specific. As for the laws of the land, partly on account of the practical difficulties of enforcement, we find that they have tended to follow behind the standards set by practice, and have attempted to restrain the worst actors rather

than to set desirable standards for normal action. They are, therefore, too exclusively, though perhaps properly, expressions of merely minimal conduct, of conduct which is inexcusably bad, conduct far below the levels of the ethically desirable. And as to the traditions and standards set up in the business world itself, I have already said that they are vague, confused, and contradictory. It is the building up of a self-consistent body of ethical traditions in the business world and the possibilities of that building that we are, in fact, discussing here.

We find ourselves, then, practically forced to look within for our basis of ethics, to ground it upon common intuition, or, in the strictest use of the word, upon commonsense. And since rules of ethics are primarily rules of behavior in society, we must establish them somehow upon what we may suppose to be good for that society as a whole, or, in the familiar phrase, upon 'the greatest good of the greatest number.'

These phrases — ‘for the good of society,’ and ‘the greatest good of the greatest number’ — are themselves, however, only a little less vague and general than the ideal statement in the Bible to which they are so closely related, the statement given form in the Golden Rule and in the second great Commandment. They must be made more exact if they are finally to offer us much practical guidance. But this task of exact definition is precisely of the sort which in modern times we recognize as lying primarily within the field of analytical and experimental science, and the social sciences are still young. They have not yet gone far enough along their road to be able to tell us much of what some day they must tell us, of what the good of society is and just what social and individual behavior will lead most certainly towards that good. Until they can give us closer guidance we must continue to move lamely and capriciously; it is hardly too much to say that the salvation of our

civilization depends upon their more rapid development.

For my part I shall make but one small effort to give these phrases a more helpful meaning. I shall define our ethical ideal as progress towards the fullest use and growth of each man's powers in the service of his fellows, and toward the enjoyment of such pleasures as do themselves contribute to the refreshment or enhancement of such powers.

This definition is not meant to imply self-conscious — surely not self-righteous — service, but rather the normal exercise of those instinctive social tendencies which the processes of imitation and natural selection inevitably cultivate in any species of gregarious animals. It is meant to imply that man's sense of moral values — his emotional response to subconscious estimates of what is right and what is wrong — is *real*, has had survival value, and is therefore a true outgrowth from solid biological soil. That its roots seldom show up in the light of con-

sciousness, or that the stresses it causes seem to have a personal rather than a racial origin is not to be wondered at, for the same is true ninety-nine times in a hundred of the companion instincts of self-preservation and race continuance. I mean to emphasize by this definition that no member of the species *homo sapiens* as it has so far evolved can expect to find his full satisfactions or real happiness unless he gives some adequate expression to this solidly founded biological instinct to devote some appropriate parts of his life to the service of his fellows.

All the difficulties we experience in establishing a basis for ethical conduct in the business world we must expect to have multiplied when we attempt the application of this basis to specific practical business acts. For in the first place, since we are finding our sanction within, we cannot force any man to accept this basis for himself, though we may find it possible by joint action to force him to behave as if he had; to his convictions we can

go no further than to say that if by inner urge, or through social pressure acting upon his inner urges, he decides to interest himself in ethical conduct, he can, with good sense, find a basis for such conduct in what he may figure out to be the good of society as a whole. And in the second place, in any complex social situation, and especially in one as complex as business, whatever standard he may adopt he will seldom find any sharp line between right and wrong; not all the sheep are sheep, nor the goats goats; and a flock of half-breeds and quarter-breeds offer difficult problems of classification.

For the solution of these infinitely varied border-line cases of business conduct no one can give him any specific rules. There is, however, one important warning to be given. In choosing his course in the middle ground of doubtful action, where there are no sharp contrasts, he must realize that he has a deeply inherited ability to 'kid' himself into believing that whatever he finally decides to

do is right. When his desires are deeply involved, or his old traditions concerned, man's unfortunate gift of fooling himself as to the real facts and the real principles involved in an actual case before him for action, amounts sometimes to genius. The first and great commandment, then, for all who care to make sincere efforts to live up to whatever codes of ethics they may adopt should be, 'Don't fool yourself,' or, rather, since unconsciously and often inevitably you will fool yourself, 'Unfool yourself systematically, persistently, mercilessly.'

Moreover, if through fooling ourselves once in a while we make a few deviations into the baser section of the middle ground of possible action, that section soon comes by habituation to seem all right enough, so that later we may the more easily slip down a bit lower. It is on account of this tendency to slip in action, and thereafter in standards of action, that precise codes of ethics and tables of commandments have their reasonable

place. The cynic if he likes may sneer at a code because it is not lived up to, but the value of a written code is not thus easily to be brushed aside.

II

There are today hundreds of codes of business behavior which have been drawn up by a variety of organizations, some quite precise and detailed, others more general. The United States Chamber and other Chambers of Commerce, many trade organizations, the Rotary and other similar clubs, have taken part in this work. These codes have been collected into a book by Heermance and when seen thus together, and compared with some notorious examples of business behavior, they are nuts for the scornful cynic. But looked at in the light of business history they seem to me to have a deeper significance.

For business was born in the ethical slums and of lowly parents, and it has been and still is faced with a double task, not only of over-

coming the inheritances and acquired habits of its birth and upbringing, but of lifting its standards against the discouraging pressure of scorn, contumely, and low expectations on the part of the rest of the world, which, for many centuries, has considered itself greatly superior.

The article on Commerce in the new Encyclopædia of the Social Sciences begins as follows: 'Many a reader has smiled over the passage in the third book of the Odyssey, where Nestor converses with Telemachus. After lavishing on Telemachus all the hospitality due to a stranger, the old man observes that the time has come to ask him ~~wh~~ he is, and turning to him he asks whether he is a trader or a sea-robber, much as he might have asked him whether he was a painter or a musician. Yet there is nothing odd in the question, for the chief merchants of the sea at that time were the Phœnicians, and they were also the chief pirates. And in the history of the world, the two pursuits have often

been combined.... From the earliest to comparatively modern times, the peoples through whose hands international trade has passed have been partly merchants and partly robbers.'

And in his article on Commercialism in the same volume, Delisle Burns says in part:

'The word commercialism carries a certain condemnatory tone, and is generally used to indicate disapproval of business men and manual workers who frankly desire to receive some purchasing power in exchange for what they do.... Since in very simple societies, trading, even where it becomes common, does not often attract concentrated attention, the low estimate of commerce and trading in later times may... represent a survival of primitive conceptions.... European mediævalism, like that of India and China, confused the issue still further by a conception of saintliness or holiness, according to which a person was excellent if he did not think of the money

cost of the services he accepted from others — if, for instance, he begged for food, or was given it while he pursued “voluntary poverty.”

‘Disdain for the consideration of money gains has always been greatest among those classes which have either inherited wealth or acquired it by force or privilege; and commercialism still implies moral contamination, partly because the possessors of wealth and privilege have never had to consider the value in exchange of their activities....

‘... Luther and the early Protestants derived a large measure of strength from their restoration of moral value to craftsmanship, trading, and especially money-lending. Among the middle classes, the ability to acquire wealth became a sign of divine favor. Except by the aristocrats and their dependents, the artists, it was no longer regarded as objectionable to think of how to increase one’s wealth; and no doubt the attention to the acquisition of wealth became

excessive among those who had never had any. The Protestantism which helped to establish nineteenth century capitalism has been condemned on this score with increasing frequency; but its defect in inducing too much attention to the economic relationships between men is no greater than the defect of mediævalism under which the saint and the noble profited by those very economic relationships without thinking of them.

‘The extent of commercialism in earlier times is difficult to estimate, but certainly mediæval kings, knights, and priests often had “an eye to business”; and as late as the eighteenth century what we call public service in law, or the navy, or diplomacy commonly furnished examples....’

After his review of business ethics, Burns goes on to state the modern point of view.

‘... Vicious commercialism,’ he suggests, ‘is not the application of standards suitable for some occupations to other occupations, but the concentration upon the money value

of any occupation to the person within it. An excessive attention to money value in any act is such as excludes all attention to other aspects of the act, or such as involves subordination of human welfare in general to economic welfare.

'The modern tendency of social idealists toward uncritical condemnation of commercialism produces much the same result as did the condemnation of usury by the mediæval church: idealists are severed from current practice and moral guidance is ineffectual in the daily occupations of the vast majority of people. A secularization of morality is sorely needed in this field.'

After all, 'a system of wide-spread payment for services is an advance upon a system of forced services accepted without thought by the privileged. Commercialism in the modern world is therefore a disease which is itself a sign of a more healthy general situation in the relations between men. ... When definite purposes other than a

gain in purchasing power are before the eyes of most men, the abnormal concentration of attention on gain decreases. The best antidote to commercialism is public spirit or a governing conception of one's action as valuable mainly because of its effect upon the community.'

In this setting of business history, it seems to me the codes of the modern business world have a right to be regarded somewhat seriously. Even where they are drawn up with the tongue in the cheek, and where, as is so often the case, they are quite inadequately observed after they are drawn up, they can at least be considered the first attempts of a great and powerful social group to gain its own self-respect and the respect of other members of society.

There is a further aspect of the codes of business morals, which may lead to their undervaluation. They are too largely negative, too much composed of 'thou shalt nots.' This fault, however, they share with

most moral codes, for wherever the attempt is made to give to ideal ethical standards greater value as practical guides to action, the negatives, the prohibitions, the '*verboten*' seem necessarily to predominate. And isn't this because it is humanly impossible as yet to picture in any precise way any particular goal for which or toward which we may be striving? The Utopians have tried it hundreds of times, and failed. It would seem that the best we can do now is to recognize what aspects of present life are clearly evil, and make our progress away from them rather than toward some defined and specified good. Progress by the social sciences toward a better understanding of the fundamentals of the social order, and a practical art of social engineering for the application of those sciences will be of double service here, for any code of behavior which can be put into positive or affirmative terms is immensely more effective than one which can be expressed only in the negative.

There is one other characteristic of any business code which seems to me of maximum importance. A code assumes that each business man must learn to look beyond the bridge of his own nose and beyond the present moment; that he must, in other words, regard the interest of others in his trade and in other trades, the interests of his customer, and the interests of the future as well as those of today. Codes presuppose and eventually may have some influence in cultivating an ability to plan, to look into the future, and guide the present response to immediate impulse in the light of decisions which are made for the future. They assume that man's actions are to be motivated by the wants and desires of his future development, as well as the wants and desires for his present satisfactions.

And this, it seems to me, is an essential feature of ethical behavior. For after all it can be said with a great deal of practical truth that no man can do what he does not

want to do, and that to do right or to do his duty is impossible, unless, in some sense, it is the thing he wants to do. What gives motive to action at any particular moment is the resultant of a complex of desires. If a man is to do right, the question is not whether he is to suppress his desires, but whether in that complex which actuates him there is a strong representation of those desires which look broadly a-field and far ahead, desires based upon his hopes for his own long-time and true advantage, and for the respect of goodly people.

The business, then, which begins to make a budget, first for one year and then for more, and upon it bases an operating plan which takes into account the respect or goodwill which the community will hold for it, is a business which is likely to take a better practical account of ethical behavior than one which can be moved only by the impulse of the moment. It is of considerable significance that the movement toward budgeting

in business has recently taken such broad hold, and that we are beginning, almost for the first time in any general fashion, to talk about advanced planning, five-year, ten-year, and twenty-year.

But the very first steps in any attempt to budget or plan ahead bring to light our pressing need for more knowledge of economic conditions. Business is beginning to cry out for facts, facts, and more facts; for better organization of facts, and more usable hypotheses drawn from them. And this is as much a requisite for ethical as for material progress; for while a certain amount of ethical progress is possible through a grim determination to lift behavior above the level of the purely selfish, not much can be gained without parallel advances in knowledge. Ignorant though benevolent applications of the Golden Rule, made without anything like adequate knowledge of what men most truly need, may sometimes be worse than crass selfishness. To achieve any

continuing progress an increase in knowledge must run side by side with the strengthening of moral purpose.

In making its attempts at the practical application of any chosen basis or code of ethics the business world must expect to find itself in a multitude of delicate and difficult positions, which will call for hard thinking and good commonsense. For a business corporation is in that difficult middle position of being itself a social group and at the same time a unit in a larger social group. It has social and, hence, potentially ethical relationships up, down, and crosswise. Each man in a company has his list of duties both as an individual and as a member of the organization which he must perform with some regard to survival as well as to the good of the whole; and the company must consider its duty to itself, to its whole social environment, and to its employees. It is clear that we cannot expect rapid, straightaway progress in so compli-

cated a field, and it is understandable that some men of good hearts but impatient heads have thrown the whole thing over and decided the only way for them was to go out frankly for themselves.

III

In entering into the practical area of our field, it may help us if we classify the social relationships of a business organization into its relationship to its stockholders, to its employees, to its customers, and to its competitors. But while we may make such classifications here, we must always bear at the back of our minds that in the daily life of a business organization these groupings do not keep themselves religiously apart; that the actual problems persist in overlapping. Each of these classifications does, however, offer a distinctly interesting field for research, and I believe that the progress of business towards a higher status could be put along not a little if, in business schools

and elsewhere, they could be set as separate projects for practical and realistic studies. Here we can do no more than touch upon a few cases in each of these classifications.

Corporate stocks, as you well know, are of different kinds, each with its own peculiar legal obligations and rights, and sometimes rather nice questions arise as to fair treatment among the various sorts. But here we shall be thinking only of the general classification of voting stocks. Between its voting stockholders and its organization as a whole, the mutual relationships of a corporation would be much simplified if it had merely inanimate shares of stock to deal with, rather than animate — and sometimes very animate — stockholders. The corporation would then simply have to face such problems as the equal treatment of each share of stock and the question of balancing its possibilities of immediate service through paying dividends, with the

building up of surplus as a factor of future safety.

But stockholders are not shares of stock; they are individuals with other interests than as mere owners of a certain stock. An influential stockholder in Corporation A may, for example, be also a stockholder in Corporation B, and may, therefore, be anxious that Corporation A should buy some of its supplies from Corporation B. Theoretically it ought to be perfectly safe to say that such a situation should have no influence whatever upon the purchasing policy of Corporation A; practically, the officers of that corporation may find themselves faced with a difficult problem. The stockholder may be very influential through his votes in Corporation A, but himself more strongly interested in Corporation B, and may be able and willing to make trouble enough in A to oust some of the management if he does not get his way. It may become a question of his getting his way anyhow in the end, and,

hence, a question whether he should not be allowed to have it without all the losses entailed in a squabble.

Similar questions arise very often with reference to placing in jobs the friends and relatives of influential stockholders. Twenty years ago I doubt if this often entered the minds of managers as a question of right or wrong, but rather as a practical question of what they had to do to get along most smoothly. Today with large lists of stockholders in hundreds of corporations the broader aspects of the case are coming into a brighter light, and here and there corporation officials are beginning to resist such a practice on the plea that it puts in jeopardy* the principle of equal treatment of all stockholders. And it seems to me there is another point coming to light at the same time; that the stockholder, even as the owner of shares which give him the right to vote, gains no untrammelled right to vote exactly as he pleases with sole regard to his own indi-

vidual interests. If ethical standards gain strength in the business world, even the stockholder will have to realize that his votes and his influence must be exercised to a certain extent as if he were a trustee for broader interests than his own.

By all odds, the most frequent question of the right relation of a corporation to its stockholders arises over the problems of inside or advance information. Of necessity it often happens that influential stockholders, among whom may be the directors and officials of the company, must know well ahead of the larger body of stockholders those plans of a corporation which will sooner or later determine its purchases of material or real estate, or affect its values in the stock market. Has such a stockholder the right to buy or sell on the basis of such advance information? Thirty years ago I don't think this would have been questioned at all. In fact I know of one large corporation which had outside of its Directors' room

enough telephone booths for each of its directors, who habitually stepped out of any meeting in which anything very exciting happened directly into these booths and sent their orders to their brokers. But this, of course, constituted a sharp inequality of treatment among stockholders. Those not in the 'know' must have suffered losses which the insiders did not have to bear, and must have foregone some of their chances to make gains. Yet if insiders are not to take such advantages, there is required of them a self-denial which, in extreme cases, may entail serious financial loss. I know of men today who are acting on broad ethical principles even in such extreme cases, and very likely their example is gaining influence all the time. It is possible, of course, that a sense of public trusteeship may some day grow among the directorates of private companies to such a degree that the refusal of chances for personal gain will seem less quixotic than it does today. But any very

wide correction must, perhaps, wait for the day which Morgan predicted, when business is to be done with glass pocketbooks and when information is to be made publicly and currently known in spite of any competitive difficulties which may arise or private perquisites which may be lost.

IV

The mutual relationships of employer and employee are much more involved and intricate than the relations between management and stockholders. There is, in the first place, a deeper and more intimate mutual dependence, the one upon the other; and in the second place the employer-employee relationship is greatly complicated by almost continuous personal contacts. We have been set back many generations in the development of our understanding and our technique of handling industrial relations problems by the almost exclusive emphasis upon that hypothetical

abstraction — the economic man — which grew out of the studies of the early classical economists. This is a part truth anywhere in the social system, but inside of the factory, where elbow to elbow contacts emphasize moods, tempers, and emotions, is a good deal less than a half truth. An employee at his bench, his desk, or his counter is, of course, an economic man, but he is an important lot besides and he cannot be dealt with adequately either from the point of view of profits or of ethics unless the whole of him is taken into account.

Even if the long-debated 'employee's just share in the products of industry' could ever be found and applied, the most difficult problems in the ethics of the relationship of employer and employee would remain; for the employee at his job is not merely earning a share of the wealth produced, he is living a part of his life — an important and often in the long run the most significant part of his life. If we are to apply here our ethical

principle that the greatest possible number of men must be given the fullest possible opportunities to develop their powers, and apply them in works of service, we must begin to understand and take into full account the non-economic motives of men in working groups. To this end we sorely need today a rapid growth in an applied industrial psychology, a growth much more rapid than I can see any signs of at the present moment, I am sorry to say.

Beginning with the work of your own Carl Parker, and of Hoxie and Valentine, a great many highly suggestive books have been written on this subject. Within the limits of my time, therefore, I should do no more than touch upon one or two significant aspects.

For many years it has seemed to me that if we could focus our attempts to gain a better understanding of employees' motives upon their desire for social status, we should make better progress. For it is an allowable

assumption that most of the motives which control the attitudes and reactions of an employee are greatly affected by, if they do not, in fact, arise out of his deep desire to hold and to improve his standing among his fellows. His much doubted instinct of workmanship, for example, may perhaps be best understood if considered as a desire to do something or to make something which will lead the men about him to admire or respect him. Whiting Williams has said that the mainspring of our desires is to enjoy the feeling of our worth as a person among persons. It is certainly in this desire for status that much of the significance of suggestion systems, of chances for promotion, of a representative works council, and of skill and tact in foremanship lies. The circumstances under which an employee can build up anything resembling a sense of loyalty to the organization he is working with must be largely controlled by the degree to which the organization and his

place in it can give him a sense of personal significance. And it is likely that the so-called pure economic motives themselves can be best understood if thought of more as a means than an end — a means of acquiring and holding a status in the society in which the worker finds himself.

It is because employees cannot be fully understood or efficiently handled if thought of as simple economic mechanisms that the appointment of an able personnel manager is so essential. The ordinary production manager, without the help of some able man specializing in its study, can no more hope to handle wisely the intricate and changing human nature about him than he could hope to handle delicate electrical or mechanical equipment without the aid of a specialist in electrical or mechanical engineering.

In the early days of the cruder applications of Frederick W. Taylor's principles, instruction cards in minute details

were usually worked out in private and imposed upon each workman. The revolts which often followed surprised managers who had always thought of an employee as an economic nickel-in-the-slot machine, because they could not see that something deeper than his reasoning power impelled him to give up even an economic advantage for the preservation of his sense of dignity and self-direction. When, later on, these instructions began to be worked out in consultation with employees and offered to them in ways which allowed them to retain their self-respect, the same standards and instruction cards were gladly accepted and followed without difficulty. Few important strikes run their full courses without building up situations in which pride or the demand for social or self-respect will overrule economic reason unless face-saving formulas can be found.

The unquashable indictment which human nature will always bring against the

autocratic method — despite any benevolence in intent or efficiency in execution — is that it first belittles the value of individuals and then creates an iron-bound system in which the development of whatever worth a person has is impossible, and in which the area of his possibilities of serviceable accomplishment is narrowed. The methods of coöperation, based upon the belief that, if they can be drawn out, individuals do have contributions to make toward the welfare of the whole, erect a system which creates broader areas of free action and extends to men larger degrees of participation in the whole. The result is the development of a self-respect in the individual, which is the first condition necessary to personal growth.

A very interesting case in applied ethics arose a few years ago when Antioch College began to send its students out for employment in stores, offices, and factories, for the five-week periods which alternated with the

five-week periods of study in the college. These girls and men took all sorts of positions, from the bottom well up the ranks — planned to work at them as conscientiously as within the college walls and were to be marked and graded as much upon their work outside as in. Presently some of these young folks began to come back to the Placement Manager of the college with puzzling questions. Among the employees in whose groups they were working they had run across some definite customs of restriction of effort and output and found themselves in a quandary. If they did what they considered their full duty by the employer they were bound to get their fellow employees in wrong. What were they to do? No easy answer could be forthcoming and eventually the Placement Manager had to put in a whole year of work as an employee in order to find out for himself the extent and the whys and wherefores of the practices of output restriction. The result is a book which has recently been pub-

lished under the title, 'Restriction of Output Among Unorganized Workers.'¹ But not even the whole book is able to give an answer to this practical problem of the students; for the causes of restriction are so deep-seated and various that obviously some of the difficulty lies in the present structure of the industrial order itself and cannot be swept away entirely without very radical changes.

Prominent among the causes for stretching out work was found the fear of periodic unemployment. Here is a factor of first importance in any consideration of the employment relationship from an ethical point of view, as in fact it is in considering the same relationship from the practical financial point of view. Until very recent years the belief that the employer should have perfect freedom to hire and fire as capriciously as he chose has seldom been brought into the question, but today both ethical sense and

¹ By Stanley Mathewson, Viking Press, 1931.

business sense are coming together to realize that such freedom cannot be unreservedly allowed. We are studying energetically and with enthusiasm all of the causes of irregularity and all of the possible means of stabilization. One device has recently been suggested which will not only speed up and extend the study of prevention of irregularity, but, also, if the means of prevention turn out to be not wholly sufficient, as in the last analysis may very likely be the case, will serve as a mitigation of the evils of whatever irregularities are left. This is the suggestion that industries, individually or collectively, should form reserve funds for unemployment—should set aside in years of normal activity some percentage of their payrolls to build up a fund from which amounts can be drawn during the seasons or years of unemployment, and paid out to the partially or wholly unemployed workers in some proportion to their wages. There are several such funds already

started and their experiences are easily to be learned by anyone who wishes to make a start. The virtues of such a fund are many. In the first place, it offers a persistent impulse to study all possibilities of stabilization. In the second place, it makes payments during the depression sector of the business cycle which help to uphold the diminishing purchasing power of the consumer. Such a fund need not and should not at the present time, I think, be regarded as insurance and handled along insurance principles, but should be a definite reserve fund of something the same nature as is commonly set aside by corporations in their surplus accounts to maintain some regularity in dividend payments. It should be set aside, that is to say, in good years in such amounts as reason dictates and used in bad times as effectively as possible for relief. A bill now before the Legislature of Wisconsin has adopted this principle of Unemployment Reserves as contrasted with the earlier prin-

ciple of 'insurance,' which was embodied in the Huber Bill some years ago. The debates upon this new bill should be well worth following.

V

In the relations of a corporation to its customers not so many day-to-day questions of practical ethics are likely to arise. For the most part, power is more equally distributed among them and, hence, conditions of sale and purchase are likely over the long run to hit something like a middle point which tends to balance the interests concerned. In this discussion we can conveniently divide customers into three groups — consumers, dealers, and suppliers — and give a brief consideration to the situation with respect to each of them separately.

The relations of a manufacturing corporation or even of a large retail establishment with the ultimate consumer — with the typical customer of a retail store — consist

mainly in questions of price, quality, and service — in giving value for the money. Where there is a reasonable amount of competition, such, for example, as we have experienced in this country during most of the past ten years, these values probably tend to arrange themselves about as fairly as they could be arranged if they were set by any other method. With luxuries, even where there is a monopoly, not much serious fault can be found with the present situation, since, after all, if the price is unattractive people do not have to buy. Only where monopoly or virtual monopoly establishes itself in a necessary service or in the manufacture of necessary goods is a seriously unfair situation likely to arise. Such situations have, in fact, continually arisen in this country and we have constantly gained skill and experience in dealing with them through governmental regulation and control.

When one is selling to dealers, however, the situation is more involved for, in the

first place, dealers have as a whole less freedom in their purchases than has the ultimate consumer. They must carry a reasonable assortment and are often under virtual compulsion to carry widely advertised goods. In the second place, there are relationships among the dealers themselves which must be taken into account — relationships of competition among neighboring retailers, of service as between the jobber and the retailer, and relationships of competition among jobbers. There arise in this field, therefore, many difficult problems and many opportunities for fair and unfair treatment which the forces of competition tend rather to complicate than to solve; for there is no denying the power of the large buyer over the smaller manufacturer, or of the strong manufacturer over the small dealer — powers which, in many instances, are powers of life and death. The buyers for large wholesalers, for chains and for groups of department stores, have all felt this power and in

not a few instances have exercised it to the limit, actually sending some of their suppliers into insolvency. Some years ago it was not uncommon to find the larger buyer picking up these insolvents at low prices and running the factories themselves. Experience proved this sort of thing likely to be unprofitable in the long run, so recent years have seen rather less of it. A considerable number of large buyers today are convinced that it does not pay to exercise extremes of sharp trading to an unlimited extent — that the constant shifting of sources of supply may turn out to be an evil greater than the temporary advantages of squeezed prices. But even setting aside these extreme cases there still remains a puzzling set of ethical questions to be solved by any manufacturer who sells to large retailers and small wholesalers, and to large wholesalers and small retailers.

It is through the daily acts and attitudes of the Purchasing Department that the re-

lations between a corporation and its supplying houses are fixed. Until very recent years it was just this department which was most seriously neglected by the great majority of American corporations and even today its possibilities and its responsibilities are too little appreciated. For anything like satisfactory ethical progress, and I believe for satisfactory economic progress as well, we must have finer and stronger organization in our Purchasing Departments and in finer and broader-minded personnel. It will be well worthwhile for purchasing agents to realize that purchasing is at bottom much the same as selling, that it is just as necessary to sell our dollars for goods as it is to sell our goods for dollars, and that it calls for much the same sort of ability; that purchasing is not giving a favor, as salesmen in buyers' markets are too apt to make one believe, and that good-will — as valuable an asset to the purchasing agent as to the salesman — may be built up or may be ruined by

a purchasing agent as truly as by a salesman.

When a group of purchasing agents get together on terms of frankness, one of them is likely before long to have something to say about their common bugbear, 'reciprocal buying.' He will tell how some enthusiastic salesman of his company in order to make a difficult sale will promise that 'if you buy from us, we will buy from you.' Thereafter, the purchasing agent finds himself saddled with a discrimination which by no means always conforms to the best policies of purchasing. For even when a single exchange of orders might be regarded as mutually advantageous, the agreements are too likely to run on beyond any period at which they could be called mutually profitable, and certainly beyond the bounds of even an elementary ethics. I know of one case, for example, where a considerable amount of equipment was being sold by concern A to concern B, and A agreed, as a condition of the sale, to buy his supplies from B there-

after. Not only did this restriction of A's source of supply run on into several years so that all advantages of any such exchange were wiped out, but several years later A found it desirable to attempt to sell to one of B's competitors and did, in fact, sell equipment to them to nearly double the amount of B's former purchase. A was then left in the position of discriminating in its purchases in favor of concern B, to whom they had, as a matter of fact, sold less than they had to its competitor.

It is, on the whole, doubtful whether reciprocal buying ever pays in the long run. It is certain that the proper cases are so rare that they should not be left to negotiations between the selling department and the purchasing department alone, but should be approved and constantly reviewed by a General Manager, who is in charge of both and can see more broadly and farther ahead than either could be expected to do.

Many wholly inexcusable cases of recip-

rocal buying have occurred in the history of railroad management. Not many years ago, for example, there was a manufacturer — X — who furnished an important bit of railroad equipment, and who on account of the values he gave had the largest share of the market. He had two competitors, Y and Z. Y, discouraged by ineffectual efforts at direct competition, finally got the Traffic Manager of a large shipper interested in his concern. That Traffic Manager sent a letter to all of the railroads telling of his interest, and saying that he would appreciate their giving favorable treatment to Y's product. The result was striking, and Y's sales rapidly increased. But Z, not to be outdone, made close connections with another large shipper who sent a similar letter to the railroads. The final result was that most of the railroad purchases were split between Y and Z, the two least favorable suppliers, and X, unwilling to resort to similar methods, lost heavily in his business.

Probably no one will offer any excuse for such methods as these, but are they not in fact only cases of reciprocal buying carried to such an extreme that their evils become obvious? If our economic system is to offer inducements for the manufacture of constantly better goods at more favorable prices, must we not reject such influences as these brought to bear upon the Purchasing Department just as we would reject the influence of an important stockholder brought to bear on the same department; and must we not make the rule that the Purchasing Department is to feel itself entirely untrammelled in searching for the best goods, under the best conditions, with an eye not only to the immediate present but to the advantages of the long run?

VI

But now what can be said, if anything, of ethical considerations in the relationships of a corporation with its competitors? Is

competition itself unethical? If so, has there been any earthly use in the millions of hours the world has spent in discussions of ethics? For it is a world full of competition — competition in sports, in learning, in business, in international tariffs, and in bloody wars. Or have the discussions of ethics been worthwhile only when confined — as they have been in fact a good part of the time — to life within the home, which is as nearly free from competition as any part of our lives? Clearly, we must face this question, for there is little likelihood that the competitive element in our lives will be abolished by making faces at it and calling it unethical.

There is much sincere belief that competition can reckon to its credit real accomplishments for the good of the race, and you will remember it is the good of the race which we have chosen as our basis of ethics. It is on the plea of these accomplishments that some are willing to grant to competition ethical value, for, they say, while it does harm, and

sometimes deadly harm, to individuals, this is simply the inevitable price at which it accomplishes a greater good for a greater number. To this way of thinking the individual must be sacrificed for the group.

But here I think we will find more interest in starting with another assumption, the assumption that competition is not the simple, unitary phenomenon that our minds too easily come to believe it to be when we use, over and over again, one single word to describe it. Competition is on this assumption a compound phenomenon, a mixture of several types of acts and attitudes, and consequently has in it elements which work for good and elements which work for ill; as these elements are differently compounded there result different types of competition. To the credit of competition, for example, there may be put its power to stir men to higher constructive accomplishments — its power to inspire thinking and a firm determination to conquer difficulties, and its

encouragement of habits of fundamental analysis. In its debit column can clearly be placed its power to arouse personal hatred and enmity and the desire to deal harm to others, and especially its cultivation of fear — the heaviest handicap which civilized man has inherited from his savage ancestors.

In our competitive sports these good and bad elements can be found compounded together in widely varying proportions. Games can be and are, in a reasonable number of cases, one hundred per cent clean. Tennis, golf, and bridge may be played not only without animosity towards the opponent but with real liking and admiration. Men can play within the rules without an umpire, even refusing to give themselves the benefit of any doubt; and after losing contests for important prizes men can be free from bitterness and rancor, and feel only an increasing determination to learn to play the game better.

But in none of our games is this always

the case. Football combines all the fine possibilities of individual sportsmanship with the peculiar coöperative virtues and loyalties which can arise when men work together in groups, and which characterize the best in what we call 'team work' or 'team play'; yet it can, as we well know, range from a dirty fight to the finest recreational activity. Now just what are the elements which distinguish a dirty game from a clean one? In the first place, for good football we must have rules or laws which are self-consistent and clearly known. These rules, like the better laws of society, are not intended to provide privileges for some and handicaps for others, but are primarily for the purpose of making possible a broad and thorough understanding of the standards of behavior which the given social group, for the time being, agrees to adopt. In the second place, these rules must be for an understood purpose and must have an understandable spirit since no set of words ever put to-

gether can hope to cover adequately all the cases which will come under them. A player may live strictly within the rules but by quibbling and pettifogging each point, be far removed from the spirit of them. Clean sport wants men who not only live under the rules but who live well up to the spirit of them. In the third place, for a good game there must be referees and judges, not primarily to inflict penalties for infractions of rules but to pass judgment upon points which the players, concentrated each upon his own share in the game, could not judge accurately. In the fourth place, we want the men to play against the skill of their opponents rather than against the person of their opponents. The playing is to be impersonal, and it is all the better if we know that between players there exists a personal liking and respect. Finally, we do not regard it as the cleanest sportsmanship when we know that men are playing more for the reward which may come to them in

glory or money than for the satisfaction of a successful exercise of skill. 'Cup-hunter' is a term of reproach of long standing. The highest ideal is to play the game for the game's sake.

A thorough analysis of competition in sport — much more thorough than I am qualified to attempt — should prove highly profitable in bringing to light the various good and bad elements of which business competition is and may be composed. But the world of sports is too far removed in its nature from the world of business to make it easy or safe to carry over analogies from the one to the other. It is competition in the professions which I believe most essential for students of business ethics to analyze, and particularly in the professions of teaching, scientific research, and medicine. A peculiarly fascinating project would be to analyze the nature of the differences between German and American scholars in their attitudes toward their conferers, and

to make a search for the causes. Competition in the professions is just as real as it is in the business world and in the world of sports, though it seldom seems so exclusively to hold the center of the stage. For individual competition among the members of any high profession is greatly modified by another sort of competition, a competition which in the finest professions plays so active a part — the competition of mankind against his environment, against drought and famine and cold and heat, against these and against ignorance. In this higher competition the whole profession is one corporate body, a single organization which allows a well regulated competition among its various departments and among the members of those departments. It may even find among its membership slackers and scoundrels, as any organization of human beings must, but its major purpose is dominant enough to integrate its internal competition, hold to a practical minimum and

overbalance any deficiencies in its membership and so to win points in the great game of mankind versus nature.

It is obvious that business, too, has a part to play in this great game and that playing it would do much to modify, to redirect, and to integrate its internal strife. The business world has talked glibly for many years of its services to mankind, often in its national trade conventions in self-congratulation, often there and elsewhere as pure camouflage, but no one who honestly knows the business of today can pretend that it has anything remotely resembling a corporate unity of purpose, or that its pure impulse to serve mankind seriously modifies the individual struggle for individual gain in more than one-tenth of one per cent of the cases. Competitive business is, as yet, a long way removed from the stage at which it can pretend even to the beginnings of professional status. Its cherished dogma is still the adequacy of the pursuit of self-

interest, which the modifying adjective 'enlightened' adorns but does not define; not does it often arouse any uncomfortable notions of the propriety of occasional sacrifice.

Yet I am certain that business has begun to make progress and that the tide now definitely runs in the right direction. Thirty years ago I do not believe that could have been said. In those days, it is significant to note, the only possible contribution to progress toward higher standards of business was the negative contributions of criticism, of muck-raking, and of restrictive regulation. It may in fact be just those contributions which have turned the tide. In any case we may be grateful that in our time it seems possible for men of more constructive temper to offer suggestions to speed on progress, and that the man who wishes now to devote some part of his life to helping competitive business reach a higher ethical plane has an opportunity greater than has existed for several hundreds of years.

In so far as we may depend upon analogies from the world of sport and the professions, we may assume one essential factor to such progress to be the development and clarification of business codes, or rules of the business game. These rules, now found in their germinal state in trade codes and in state laws, are, as we have seen, still made up so largely of negations and restrictions that we hear business men constantly complaining about restrictive laws. Yet any study of the true nature of things would force them to realize that restrictive rules must constantly increase unless and until a set of affirmative rules begins to work itself out. As a very practical step in this direction, I believe it would be distinctly wise to begin at once in a limited way to give to the Federal Trade Commission the power to exempt certain industries from such negative restrictions as are found, for example, in the anti-trust laws, to demand reports which would give the Commission knowledge

of the way such exemptions are used, and finally to advise concerning the proper field for their actions with due regard for the good of the industry and of the community as a whole.

As another factor essential to progress we may assume that business must have its umpires to apply and interpret its rules. This need has been very clearly foreshadowed by the appointment and the somewhat surprising persistence of the so-called 'tsars' of various industries, and by the growth of voluntary schemes of arbitration. The law courts have in the past been thought of as business umpires, but they are not at all likely to prove adequate. Perhaps in earlier days, when business change was slower in its pace, the courts might have served this purpose more nearly, but today to rely upon the courts as an umpire would be a good deal like doing without a referee on the football field and expecting all doubtful points to be settled through protests after the game is

finished. That might do for chess, but the speedy game of business must have umpires who can make their decisions as the game goes on.

The beginning which has been made by the voluntary appointment of umpires by trade associations and industrial institutes will, perhaps, be followed up to some extent during the next few years; but it is necessary to realize that the field for purely voluntary action in the business world is a limited field. It has been demonstrated in a variety of ways that business men through voluntary effort rarely succeed in covering ten per cent of the necessary field of action, and seldom get as high as three per cent. If we are interested to look beyond the bare beginnings, we must be willing to imagine a referee with a power and influence greater than that which any group from the business world would be willing voluntarily to grant him and to maintain in him. If business umpiring is to grow beyond the limited pos-

sibilities of voluntary action, as I feel quite sure that it will because it is so necessary to society, and to business itself, it is again, through some such organization as the Federal Trade Commission that it will develop, just as through the work of the Interstate Commerce Commission there has evolved a similar service in railroading.

Now we realize, of course, that such devices as rules and umpires are mere mechanisms. Competitive business can hardly hope to climb very high in the ethical scale until some force begins to modify the motive of the players, to make them feel a desire to live up to the spirit of the rules. But is it not likely that it is just this first mitigation of the pressures of competition which may be necessary before any higher progress can be made? Under the competitive structure of today business is far too often a life and death struggle, and the world's long experience with life and death struggles in war makes it very doubtful whether there are

any possibilities of refining the spirit of competition so long as the competitors consider their lives and livelihoods in vital jeopardy. It seems reasonable to believe that we must have some progress first in the mechanics of competition before we can hope for very much progress in the spirit of competition. We must expect to find it necessary to do something towards improving the health of the body before we can go far in elevating the spirit.

For after all the physical health of the business world cannot be regarded as very rugged in spite of the stamina it exhibits in the vigorous spurts it takes from time to time. No organism can be called normally healthy which, every three or four years, catches a wasting disease resulting in partial collapse and paralysis, and running on for twelve, eighteen, or twenty-four months. If, as some believe, the period of hyperactivity before the collapse is in itself an evidence of disease, a premonitory fever as

it were, then the truly healthy period of the business world reduces to a span of from six to twelve months in each forty-month cycle. Few teachers of personal ethics would care to tackle the case of a man whose periods of normal health were so short and so infrequent. They would probably call in a physician for his body and try to get some of the kinks taken out of that before they tackled his soul. We should not be surprised or disappointed, then, if the early steps in the progress of business seem more materialistic than ethical.

Yet the work that is now being done by business men's associations towards lifting the spirit of competition above the cave-man level should be continually pressed. We cannot be certain that it will not do good. We know that the spirit can affect the body just as truly as the body can affect the spirit, and that since the spiritual problems must be tackled sooner or later, it may help a good deal if they are well under way when

finally dawn the days of better physical health. Some slight betterment of the spirit of competition can doubtless be gained merely by cultivating in trade associations a mutual acquaintanceship among competitors, though this must be of extremely small importance as compared with the opportunities which such associations have to encourage the intellectual, analytical approach to business problems. This greater opportunity is shared by business schools, and is, I think, being seized more fully by these schools than by many of the associations. It is an opportunity of essential importance; for there seems to be a habit-forming power in analytical and intellectual work which tends to lift the motives of men and hold them above the scrambling levels of the savage. The majority of men who have been given an opportunity to examine business problems with the impersonal and objective eye of analysis, seem thereafter to feel within themselves a desire to resist the

forces which would drive business down to the level of blood and thunder melodrama or slapstick comedy. One of our very best chances, then, to lift the ethical level of business practices lies in the efforts of business schools and trade associations toward cultivating to the fullest extent the intellectual, analytical and engineering approach to business problems.

It is a perfectly possible supposition that man's desire to do is primary while his desire for possession is derived. Certainly, a part of the value put upon possessions lies in their nature as trophies, as symbols of achievement. Part, also, lies in the power they confer — a power which it is likewise possible to use towards further achievement. To be sure the habitual mental disposition, developed and ingrained by nearly every influence in the business world today is almost wholly towards having rather than doing, yet the considerable degree of inversion of this mental attitude in the med-

ical and teaching professions shows it to be an environmental product, not an innate tendency. A change in the educational setting could do much, therefore, and relatively quickly, to cultivate the strength of the desire to do over the desire to have. And even the first slight changes can make material alterations in the status of business which may prove cumulative in their effects.

To put the whole thing in a nutshell, I believe that we can hope for progress in the ethical standards and ethical behavior of the business world only in so far as we can hope that business management will advance towards the status which has already been reached by the best of professional life; a status in which competition becomes not merely a struggle for spoil but a rivalry for excellence; in which an employer must have not only a command of capital and a knowledge of merchandise, but a proven fitness to influence the lives of his thousands for lasting good — to make men as well as

merchandise; in which an unqualified employer will come to be looked at with as much disgust as is now the unqualified lawyer, doctor, or teacher — as a menace to the peaceful progress of his fellow men. Unless some new kind of history is in the making this status will be reached, not by a substitution of the motive of service for the motive of profit, but by a steady and, we may hope, rapid increase of the motives of service to a more effective and finally to a predominant strength.

The history of the professions is an excellent practical object of study for anyone interested in plotting the possible courses of business management towards higher ethical standards. This is particularly true of the medical profession, which has worked its way through various stages of charlatanism and low commercialism, and which is not so far advanced today that it does not still have to struggle with some of its legacies of the past. It, too, has its problems of com-

petition and of consumers' rights closely enough parallel to those in business so that many times a consideration of what the best members of the medical profession would do today in a given set of circumstances will throw light upon some of the major problems of the business world.

Four criteria which characterize professional activity are, first, that it is the employment of expert intelligence; second, that it uses the methods of science and publishes freely and openly to the members of the profession the established results of research and experience; third, that in letter and in spirit, it means to live up to a written or unwritten code; and, fourth, that it is actuated by a motive of service to mankind greater than the motive of service to one's self and one's own. These four criteria business management must meet before it can boast of being well on its way to the solution of its ethical problems.

The day may seem far off; it may even

be true that the goal itself will turn out impossible; — only the future can say.

But in the drive towards this goal every man in the business world today, and many outside of it, can help in a thousand ways, little and big; and chiefly he can help by refusing to admit the goal to be impossible, by refusing to himself and all about him the old, cheap slogan that business is business. For while business is business, business is also life and a rapidly growing part of all life. If we can't win through to reasonable ethical standards in business, we have a mighty small chance of winning anywhere along the line, and if we don't win, it is one hundred to one that we shall lose. Nature doesn't often play a tie game, and human nature less often.

Our determination to fight may be steeled by a need which is nothing less than the need of preserving our whole civilization — of avoiding the utter chaos of its downfall. We can, and should, admit all the difficulties

in the way; any mere sentimental idealism is more likely to push us back than on; but we need never admit any final defeat. It is better sportsmanship and a better life to go down fighting for a cause which may lose than to go slacker because we can't be absolutely certain we are going to win.

