

# Trusteeship As a Moral Foundation for Business

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When corporate scandals break out, a review of corporate governance practices follows and fresh regulation is introduced. However, the public debate on the standards of acceptable corporate behavior appears devoid of moral expectations. Our corporations should not only be legal and economic beings but moral ones too. Gandhi's concept of "trusteeship" can serve as a philosophical foundation for businesses and provide requisite moral guidance.

## TRUSTEESHIP AS A MORAL FOUNDATION FOR BUSINESS

The international corporate environment has been rocked by several scandals beginning in the late 1990s. The well-publicized cases of Enron, WorldCom, Tyco, and Global Crossing in the United States and of Parmalat in Europe exposed instances of accounting irregularities and financial mismanagement, and also revealed the enormous financial assets appropriated by the leaders of these enterprises. The issues involved both individual and corporate behavior. At the level of the individual, the scandals brought forth concerns about unethical behavior and misuse of power since individuals had secured for themselves a larger share of corporate

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rewards while denying the same to others. The collective question raised was how organizations could make decisions that harmed their stakeholders and reward egregious behavior on the part of their senior executives. Even the proposed regulatory solutions only dealt with the symptoms and aimed at strengthening the structure of corporate governance.

Is the unethical behavior that we witness a price we pay for our form of capitalism and free market policies, or are businesses basically amoral? In this paper, I take the view that there is a need for bringing the moral basis of business in society into the discussion. I review the concept of trusteeship proposed by Gandhi and discuss how it can serve as a moral foundation for the organization.

### ***Trusteeship for the Individual***

Legal frameworks view trusts as organizations that are formed to achieve a stated purpose (for profit or not), where the management is in the hands of individuals who do not run it for personal gain. Gandhi, better known for leading India's nonviolent freedom struggle, advocated "trusteeship" as a moral basis for individuals in positions of wealth. He conceived trusteeship as a system wherein the individual considers that part of his wealth in excess of his needs as being held in trust for the larger good of society and acts accordingly.<sup>1</sup>

Trusteeship was derived from Gandhi's spirituality. In the non-dualistic tradition of Hindu philosophy, the individual self (*Atman*) and the ultimate reality (*Brahman*) are considered one. Following this tradition, Gandhi saw God not as a personal but an unseen power, which was represented for him as truth, and which became a central tenet for him. He even named his autobiography as "*The story of my experiments with truth.*"<sup>2</sup> His belief that "truth is God" led him to the idea of oneness of mankind and the essential unity of all existence. The practice of *ahimsa* or nonviolence was the means to attain this truth.

Gandhi's moral philosophy of *Sarvodaya*, meaning universal uplift or welfare, also flowed from his belief in the oneness of mankind. *Sarvodaya* was a step beyond utilitarianism, which looked for the welfare of the greatest number. When you seek the welfare of all, you cannot be satisfied with the welfare of the greatest number, and universal welfare flowed from his belief of isomorphism of truth, *Atman*, and *Brahman*. It did not matter to him that it may be a goal

that is beyond reach. "Those who own money now, are asked to behave like trustees holding their riches on behalf of the poor. The question how many can be real trustees according to this definition is beside the point. If the theory is true, it is immaterial whether many live up to it or only one man lives up to it. . . . Absolute trusteeship is an abstraction like Euclid's definition of a point. But if we strive for it, we shall be able to go further in realizing a state of equality on earth than by any other method."<sup>3</sup>

Gandhi believed that economic policy and business behavior could not ignore moral values.<sup>4</sup> He stated that nature provided enough to satisfy man's needs but not man's greed. Since the rich had wealth in excess of their needs, it was their duty to use the balance for the welfare of the others. Gandhi says in his autobiography how he was inspired by the notion of *aparigraha* (meaning nonpossession) in the Bhagavad Gita (a sacred Hindu text). "I understood the Gita teaching on nonpossession to mean that those who desired salvation should act like the trustee who, although having control over great possessions, regards not an iota of them as his own."<sup>5</sup>

Gandhi's trusteeship is not akin to charity or generosity for he believed that able-bodied people should work for their living, and giving charity to healthy people was not only shameful and degrading but gave the donor a false sense of satisfaction.

He believed trusteeship would help achieve a voluntary form of socialism. Gandhi disagreed with communists due to their use of violence to achieve their ends although their egalitarianism appealed to him. He says he enunciated trusteeship to counter socialist and communist challenges to the possessions held by the landowners. "If only the capitalist class will read the signs of the times . . . There is no other choice between voluntary surrender on the part of the capitalist . . . and on the other the impending chaos [by the] awakened but ignorant famishing millions . . ."<sup>6</sup>

Gandhi was not uncomfortable to be among the capitalists. G. D. Birla, founder of the Birla Group of Companies in India, provided much of the money for the maintenance of Gandhi's ashrams and his various organizations.<sup>7</sup> Gandhi also distinguished between capitalists and capitalism. Thus, "Should the wealthy be dispossessed of their possessions? . . . [No, for then] Society will be the poorer, for it will lose the gifts of a man who knows how to accumulate wealth . . . The rich man will be left in possession of his wealth, of

which he will use what he reasonably needs and act as a trustee for the remainder to be used for society.” Similarly, neither did unequal distribution of wealth greatly perturb him, since from a practical point of view it was preferable to violent enforcement of egalitarianism. Again, “Economic equality did not mean that everyone would literally have the same amount. It simply meant that everybody should have enough for his or her needs. . . . [For example], an elephant needs a thousand times more food than an ant . . . .”<sup>8</sup>

Gandhi’s dislike of force and state enforcement made him suggest trusteeship initially as a voluntary practice, but towards the end of his life, increasing frustration perhaps due to lack of wide acceptance made him lean towards legislation and state enforcement. A document listing elements of a “practical trusteeship formula,” put together by Gandhi’s secretary<sup>9</sup> and said to have received his approval, suggests limits on the rights of private ownership of property and income ceilings.

In a wider sense, trusteeship was a generic dynamic process that Gandhi subscribed to which governed the relationship between the strong and the weak, the rich and the poor, and the rulers and the governed. Thus, he wanted the English to act as trustees for the millions in their colony, India. (There is some suggestion that it was this idea that led to the adoption of “commonwealth” as a term for the former colonies of the British “empire.”)<sup>10</sup> He wanted the Indian princes to be like trustees of their subjects for revenues received from them. He viewed it as the responsibility of all individuals to retain only what they need and to utilize the rest of their wealth and income for the benefit of others. Gandhi even began practicing trusteeship while running his law office in South Africa.

For Gandhi, wealthy people should not just be encouraged to act as trustees, they are morally required to do so. Gandhi’s justification primarily arose from his Hindu spiritual beliefs, which enjoined the follower not to be “attached” to material possessions that detract one from a path to salvation. This injunction served him quite well, for his desire was to alleviate the poverty he saw around him, and a nonviolent approach to equitable distribution was preferable to either state intervention or the violent means of the communists.

I agree with Gandhi’s position that there is a moral justification for acting as a trustee. Even though an individual may claim that he did not cause the poverty, continuing to live in and share the fruits

of society requires bearing common responsibility. Under trusteeship, the individual is not giving away excess wealth, but retaining what is needed (a flexible standard) and using the rest for society's benefit. This approach has a practical appeal to it. The argument that only a few individuals following such a scheme will not make an impact on society can also be challenged. The needs of society are so great that every bit helps. One could even argue that, by spending on oneself and not taking the voluntary initiative to use the excess wealth for society's benefit, the individual is certainly causing harm to society for whom the wealth could have been used.

Peter Singer, a utilitarian ethicist, echoes Gandhi's trusteeship when he states, "In the world as it is now, I can see no escape from the conclusion that each of us with wealth surplus to his or her essential needs should be giving most of it to people suffering from poverty so dire as to be life threatening. That's right, I am saying that you shouldn't buy that new car, take that cruise, redecorate the house, or get that pricey new suit. After all, a \$1,000 suit could save five children's lives."<sup>11</sup> Singer extends the principle to the level of the nation when it comes to giving aid to the poor nations.<sup>12</sup> He argues that "if we can prevent something bad without sacrificing anything of comparable significance, we ought to do it." Much like Gandhi's standard of "in excess of one's need," Singer uses a criterion of comparable moral significance to determine how much to give. For one person, giving up a second car to donate aid to a poor nation may be worth it, but it may not be for another. However, stopping short of Gandhi's universalist position, Singer argues that the standard of donating must be a doable 10% of one's income. Gandhi's trusteeship differs from the utilitarian position in another area also. The utilitarian may justify the methods employed as long as it secures the desired goal. But for Gandhi, the same moral standards that apply to the ends also apply to the means.

### ***Trusteeship for the Corporation***

How would the concept of trusteeship translate from the individual to the corporation? A brief discussion of the corporation's purpose would help.

The argument that business activities should be solely focused on their economic purpose is often traced back to Adam Smith,<sup>13</sup> who argued that the pursuit of self-interest by the business person

is guided by an “invisible hand” that leads to the well-being of others. Without negating the argument of a larger purpose for economic activity, Smith just folded the moral justification into the economic one.<sup>14</sup>

The need for a moral foundation for business arises from three areas: (1) The state creates and protects corporations, and the purpose of the state is to further society’s interests. (2) The corporation itself is composed of a collective of people. If individuals have moral standards and the corporation is a person in the eyes of society, shouldn’t it also have moral standards? (3) Corporations have wide-ranging activities that impact the lives of people through the goods and services they buy and sell. Thus, they have to behave in a manner that society would consider appropriate, which may be greater than an existence to maximize private gain.

Expressions of concern about the morality of organizations take the form of “corporate social responsibility,” and these expectations get translated into minimum standards that are embedded in law. However, several major decisions that an organization makes such as divestiture, employee layoffs, launch of new products, hiring, aggressively competing with a rival, and so on are based on a set of values. Freeman and Gilbert<sup>15</sup> argue that problems of ethics and morality emerge when different sets of values conflict because the organization is faced with the question of how it should act on that issue. I believe that an organization being clear about its ethical and moral foundations would make it easier for making decisions and understanding its future.

Theories of morality usually developed at the level of the individual need to be qualified when applied to the corporation. Thomas Donaldson suggests that the corporation, to qualify as a moral agent, would have to institute a process of moral decision making. This would require it to satisfy two criteria: (1) the capacity to use moral reasons in decision making and (2) the capacity of the decision making process to control the actions, and the structure of policies and rules.<sup>16</sup>

Trusteeship does not require distribution of assets in excess of one’s needs, only that it be viewed and used as being held in trust for meeting society’s needs. Gandhi’s formulation also does not prevent an organization from pursuing a goal of maximizing wealth. By Donaldson’s criteria, using trusteeship in decision making would require the organization to believe that a decision taken is for the betterment of society. Thus, the principles of trusteeship need to be

reflected in the policies, systems, and procedures of the organization that guides its functioning.

One example would be to embody trusteeship in the statement of the mission of the organization. When the organization demonstrates use of its mission in its critical decisions, that would assure us that the organization has followed a principle of trusteeship. Birla, the industrialist referred to earlier who was also a close associate of Gandhi, once said, "It has been the policy of the House of Birla not to build up business with a view to the accumulation of capital but to develop unexplored lines, harness the undeveloped resources of the country, promote know-how, create skilled labor and managerial talents, spread education, and, above all, add to the efforts of the leaders of the country who have been struggling to build a new, independent India, free from want, the curse of unemployment, ignorance, and disease."<sup>17</sup> This is an example of how one business group incorporated trusteeship ideas into its purpose.<sup>18</sup>

It would be difficult to find clear evidence of trusteeship (intent followed by behavior) by relying on published information that usually presents an incomplete picture of organizational behavior and decision-making practices. Working under this limitation, some cases illustrate organizations attempting to work on similar values. For example, the first sentence in the mission statement of Medtronic,<sup>19</sup> the medical equipment manufacturer, is "To contribute to human welfare by application of biomedical engineering in the research, manufacture, and sale of instruments or appliances that alleviate pain, restore health, and extend life." The fourth sentence states, "To make a fair profit on current operations to meet our obligations, sustain our growth, and reach our goals." William George, the former CEO of the company, explains, "It is my belief that corporations are created for a purpose beyond making money. Sustained growth in shareholder value may be the end result, but it cannot be the sole purpose. The purpose of any company boils down to one thing: serving your customers."<sup>20</sup>

A second example concerns Ben & Jerry's Homemade, Inc., a medium-sized ice cream manufacturing company. This company was started by two avant garde entrepreneurs in 1978 (since acquired by the Unilever Group in 2000). At the start, the company decided that apart from making good ice cream and making a profit, they would strive to improve the quality of life in the broader community through a social mission. One of their policies included limiting the

salary of the top manager to a multiple (seven) of the lowest-paid employee. After a few successful years, this rule was perceived to be a stumbling block when the organization started looking for an experienced CEO to sustain their growth in the face of severe competition. Ultimately, this principle was given up.

Both Medtronic and Ben & Jerry suggest that there are organizations that see a larger purpose in their existence beyond Friedman's<sup>21</sup> narrow view that profit maximization should be the sole responsibility of corporations as long as they stay within the limits of the law. While these two cases may not be complete examples of trusteeship, they suggest the possibilities for organizations that want to move in that direction. For example, in recommending an organization formulate an "enterprise strategy" to deal with the question of "what do we stand for?" Freeman and Gilbert<sup>22</sup> caution that it is not just a slogan but hard work in trying to understand the values of the people within the company while trying to connect ethics and morality as part of an organization's purpose.

Trusteeship goes beyond our existing notions of stewardship, philanthropy, and social responsibility. Stewardship aims for collectivism and relies on trust and higher values in the running of an enterprise. Philanthropy involves making a contribution to activities that are involved in good works, and hence is an expression of support and encouragement. It does not involve any transformation of the giver's intent or behavior beyond this act of donation. Neither does it provide constraints on decision making. Social responsibility stipulates that corporations need to recognize their responsibility towards society and to act accordingly in a responsible manner. This sets a minimum standard of expectations; an organization that recalls its product from the market when it has evidence of possible harm to consumers and before being required to do so by regulatory authorities would satisfy an expectation of socially responsible behavior. Another organization may seek to establish its socially responsible credentials by sponsoring sports or arts events.

Sometimes, what appears like trusteeship is not really so. Andrew Carnegie,<sup>23</sup> the U.S. steel magnate of the late nineteenth century, raised a question in the spirit of Gandhi's approach to trusteeship. He asked, "What is the proper mode of administering wealth after the laws upon which civilization is founded have thrown it into the hands the few?" and proceeded to answer it thus:

This, then, is held to be the duty of the man of wealth: To set an example of modest, unostentatious living, shunning display of extravagance; to provide moderately for the legitimate wants of those dependent upon him; and, after doing so, to consider all surplus revenues which come to him simply as trust funds, which he is called upon to administer, and strictly bound as a matter of duty to administer in the manner which, in his judgment, is best calculated to produce the most beneficial results for the community—the man of wealth becoming the mere trustee and agent for his poorer brethren, bringing to their service his superior wisdom, experience, and ability to administer, doing for them better than they would or could do for themselves.<sup>24</sup>

Carnegie's benevolence was prodigious. He is estimated to have given away about \$100 billion in today's money towards construction of libraries and various foundations. However, more recent reviews<sup>25</sup> of him have also pointed out his ruthless behavior towards his employees and unions, and a retired life in a castle, suggesting even self-serving motives for his philanthropy and definitely not in the spirit of trusteeship. As Gandhi's quotes provided earlier suggests, practicing trusteeship may be difficult while its value as a goal to be followed may be more powerful.

Carnegie's quote also suggests another argument that can be used to challenge trusteeship, namely, that it is paternalistic in its approach. Acts of benevolence, reflecting a positive concern for the well-being of others, are seen as paternalistic, an infringement of the autonomy of the individual, and have not found much favor in the United States.<sup>26</sup> To differentiate trusteeship from paternalism, it is important to be clear about the difference in intent. Trusteeship does not require one to override the individual's choice through imposition of one's will; the trustee is not performing his acts because he thinks he knows better, but because his moral motivation requires him to utilize the excess assets under his control in a manner that is not for private gain.

The changing needs of a globalizing world are altering society's expectations of business and the organizations' own self-image. For example, the "Global Compact,"<sup>27</sup> proposed by the UN Secretary General at the World Economic Forum in 1999, aims for businesses to incorporate the principles of human rights, labor, and environmental protection in their business strategies. And several organizations in

the United States and elsewhere have done so. Corporations in Western Europe and Japan have seen a larger role for themselves that fall within the scope of "welfare of the employees."

Gandhi's trusteeship is an ideal standard that requires being proactive. It is ethics, philanthropy, and social responsibility all rolled into one. It would require a moral basis of operation that goes beyond writing a check for a tax-deductible cause, or disposing of hazardous waste safely. It would not only require an organization to see itself as using assets for the benefit of society, but would also require that it follow a moral path in the way it conducts business.

How do we recognize that an organization is behaving like a trustee? When a pharmaceutical company limits its dividend to past averages allowing it to hold the price (and forego excess profits) of its essential drugs that serve the needs of large sections of the poor, then it would have displayed trusteeship behavior. A drug that Merck & Co. was previously championing as a special kind of pain killer was withdrawn by the company recently after evidence that it could cause cardiovascular problems. A recent report<sup>28</sup> suggests that there was suspicion within the ranks of the company of the problem even earlier and the needs of marketing and science were in conflict as decisions were made about its launch and promotion. This suggests a lack of clarity of the moral purpose of an organization and decisions being driven by only economic considerations.

The trusteeship idea can be applied in a limited way in several areas of decision making. What should be the location of the unit? Will it benefit the community without affecting the environment? What should be the technology used? If it is launching a new product, has it taken all precautions to ensure safety in the manufacture and use of the product? What manner of advertising is used to attract new customers? If the company has to downsize, is it done in a manner that causes the least harm?

Thus, while we extend the trusteeship idea from the level of an individual to the whole organization, it requires running the organization in such a way that, in addition to its basic economic purpose, the organization considers for itself a larger role in society aimed at improving the welfare of those within the community. It needs to be proactive. Admittedly, as the Ben & Jerry's situation shows, this is difficult to sustain in our society without major changes in our expectations of a market-based system. Moreover, when an

organization decides to move off the beaten track and adopt missions other than profit-maximizing, it becomes subject to considerable scrutiny and its actions are often held to higher standards. And, as Bakan comments, since corporations are created by public policy, there is no reason for the state, which is meant to protect the public weal, to create a structure, set of laws, and to protect a body solely for private benefit.<sup>29</sup>

Business organizations today are not just a place where we earn a living. They are the dominant form of institution in society and dominate even socially important sectors such as education, health care, and public services. Apart from providing the means of existence for a substantial majority of our population, they also supply almost all the goods and services we consume, and shape public policy. There are few individuals today who can exclusively live off the land. Increasingly, the model of privatization that has spread around the world has also resulted in many services that used to be provided by the government now being provided by private organizations.

Under such circumstances, society should require organizations to live to a higher standard. Trusteeship provides such an ideal standard. The requirements of trusteeship are not easy to reach in a society that, over the years, has devised the rules and structures to expect purely economic behavior from organizations. Although, as Gandhi realized, a standard such as trusteeship cannot and should not be instituted through a government fiat, regulations that may prevent such behavior should be removed. Moral suasion should be used to drive organizations towards this end.

## CONCLUSION

Recent history has shown that societies organized on strict communist principles failed to provide for the well-being of their members to a greater extent than capitalistic societies. Trusteeship depends on the rights of individuals to use their skills in building wealth to the maximum extent possible, taking from their accumulations what they believe they need, and using the remainder for the benefit of their fellow human beings. Thus, trusteeship can coexist with capitalism and with individual rights.

Adam Smith's "invisible hand" is often used (albeit mistakenly) as justification for business persons to pursue self-interest without

concern for moral issues, since society's well-being was also being achieved simultaneously. The traditional view of wealth accumulation as being devoid of moral values is also captured in the biblical saying, "It is easier for a camel to go through the eye of a needle than for a rich man to enter the kingdom of God." However, taking into account the pressures from society for better behavior from its businesses, George observed sanguinely in 1972, "Today's manager recognizes his multiple obligations because of his peculiar place of stewardship over vast resources. The employees and the community's well-being takes equal or greater precedence over owners and customers in many matters."<sup>30</sup> It would be perhaps more appropriate to say that the importance managers have given to their larger role in society has waxed and waned over the years.

There are several examples to suggest that society continues to expect businesses to live up to some moral standards of behavior although these standards may be difficult to codify and make specific. When U.S. CEOs' pay continues to rise many times above that of the average wage earner, or when top management secures lucrative severance deals for themselves, they are often not violating any rules. But the feeling that the organization "should not be doing this" is widely subscribed to and arises out of moral expectations. William McDonough, president of the New York Federal Reserve, commenting on the fact that in a market economy some people will be rewarded more than others, asked, "Should there not be both economic and moral limitations on the gap created by the market-driven reward system?"<sup>31</sup>

In September 2003, it was disclosed that the head of the New York Stock Exchange (NYSE), Richard Grasso, had been granted a deferred pay package of \$139.5 million. The widespread feeling that this was "excessive" (although not illegal) arose from a sense of morality. Phil Angelides, Treasurer of the State of California, stated, "It is fundamentally important that Grasso resigns, so the New York Stock Exchange can restore its moral authority."<sup>32</sup>

It is in this context that I believe Gandhi's trusteeship can provide an acceptable moral foundation for businesses to take a larger view of their responsibilities. It may appear to be easier for individuals to practice the principle rather than organizations that are answerable to varied owners and financial markets. But it is important for organizations to go beyond ethics codes or corporate philanthropy.

It will be a slow process for individuals to be convinced of the need to act differently, for organizations to stumble along the path of devising policies and procedures, and regulatory systems, and expectations to also change. CEOs need to take the lead and inculcate in their organizations the character to go beyond the immediate consideration of profit margins and do what is generally believed to be the right thing. If this seems too idealistic and difficult to achieve, we can take comfort in Gandhi's assertion that it does not matter how successful we are in living up to it as long as we believe in it and aim for it.

### NOTES

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