



**FULFILLING OUR PROMISES**  
TO THE MEN AND WOMEN WHO SERVED

# NONPROFIT ADVISOR

For DAV Departments and Chapters

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## BUSINESS ETHICS

### Part 2 of 4

#### How Can a Corporation Be Morally Good or Bad?

In the last issue of this newsletter, we examined the distinction between the legal and moral requirements that govern business decisions and determined that these requirements, while overlapping, are not identical. We now address a question that is in some sense more fundamental: how can a corporation have “moral” responsibilities at all, since it is not a natural person, but merely a legal fiction?

Why should a corporation’s “morality” matter? The answer is that as a participant in society, the corporation has an obligation to take the interests of the other members of society into account. A society in which the members had no regard for each other would not be a society at all, just a collection of isolated beings that happened to be occupying the same, or closely juxtaposed, space and/or time.

The expectation of corporate morality is reflected in the fact that certain stakeholders (customers, donors, etc.) tend to shun corporate entities that may act within the letter of the law but violate the moral norms that pertain to social relations. In other words, bad morals, bad business! (An example might be the corporation that does not give any vacation time to its employees on the grounds that the law does not require it.) In the nonprofit world, there are an unfortunate number of examples of charities that have suffered temporary – or

permanent – declines in public support because of engaging in behaviors deemed to be ‘immoral’ by some segment of the population.

But how can a corporation (which is defined as an entity with *limited* liability) possibly be blamed for moral wrongdoing? After all, moral blame usually involves making a judgment about someone’s knowledge, motive or intent. These concepts seem to be foreign when applied to the artificial person that is the corporation. How can the corporation be morally culpable when no other non-human being is so blamed? When a tree falls on my car, is the tree malicious? Preposterous!

The answer is this: It is the persons acting for the corporation who give the corporation its moral standing. One might say that the sentence “Corporation X is immoral” is nothing more than shorthand for “Person X, Y, Z . . . utilized his (their) position to perform such-and-such immoral acts while acting on behalf of the corporation.” Simple? Yes. Obvious? Perhaps. But many bad actors deny moral blame *by hiding behind the corporation they were supposedly serving!* [“It wasn’t I who went bankrupt and stiffed the suppliers (even though I made the decision to do so) – it was the **company!**”]



**FULLFILLING OUR PROMISES  
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Should leaders and others who engage in immoral acts on behalf of the corporation bear the stigma and the consequences of such acts? Soon-to-be-President Woodrow Wilson addressed that question more than a century ago with these words: *“It is childish, it is futile, it is ridiculous! Society cannot afford to have individuals [with power avoid] personal responsibility!”* And so it is with nonprofit leaders.

Retention of a leadership position in a nonprofit organization does – or should – involve adhering to legal and moral standards when acting on behalf of the corporation. The law cannot punish immorality that does not cross the line into illegality.<sup>1</sup> Nonetheless, nonprofit leaders and the organizations on whose behalf they act are both subject to various marketplace sanctions for immoral behavior. Leaders can be replaced. Organizations can be boycotted. The first (and in some ways, only) defense against immoral

corporate conduct is *moral* individual conduct. That is why, even for corporate subordinates, the so-called “following orders” defense (*“I had to do it to save my job”*) is ineffective as a legal defense or a moral free pass.

Lawyers and moralists alike are recognizing the wisdom of penetrating the corporate veil to hold flesh-and-blood human beings accountable for acts taken on behalf of a corporation. The so-called “intermediate sanctions” regulations issued by the IRS were groundbreaking in the nonprofit world. For the first time, charities are subject to a formal government program of targeting people whose bad acts are carried out on behalf of an organization. What does this mean for a DAV leader? It signals the need for a permanent sensitivity to the fact that – morally speaking – DAV is only as good as what you make it. DAV is good because you are. Let’s all keep it that way.

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<sup>1</sup> Sometimes, certain principles are so important that a society decides to make a moral principle a legal one. For example, long before the civil rights laws prohibiting discrimination were enacted, it was still immoral to mistreat persons because of their age, sex, race, etc.

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