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Business Ethics

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a contradiction in terms? an introductory article including a brief history of business ethics

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“Business ethics" - a contradiction in terms?

For many years people in "business" have had the reputation of needing to be ruthless in order to succeed. We've all heard remarks and jokes that perpetuate such stereotypes and caricatures, to the effect that there is no such thing as an honest person in business.

Such comments would not be made unless there were at least some truth behind them on many occasions.

We all know examples of people in business who have done things we consider dishonest, repugnant and socially irresponsible, all for the sake of personal monetary or material gain and, in many cases, ‘got away with it’ as far as the law is concerned.

As one author put it:

“Failure seems to be regarded as the one unpardonable crime, success as the all-redeeming virtue, the acquisition of wealth as the single worthy aim of life. The hair-raising revelations of skullduggery and grandscale thievery merely incite others to surpass them by yet bolder outrages and more corrupt organisations”.

Were these words penned by a modern Management Guru? No. Charles Francis Adams wrote them over a hundred years ago!

In fact, so many revelations are reported that people who wish to be honest in the business world may be tempted to believe that they, too, must be sneaky, deceitful or dishonest in order to pay their way and make a decent profit.

More recently a senior U.S. accountant, Michael Cook, described how he perceived the situation:

“We have all been embarrassed by recent events which make the Wall Street Journal read more like the Police Gazette with articles on bribery, bid rigging, kickbacks and even CPAs selling their opinions. A real ethical disaster has occurred and has lowered the public's already unacceptable opinion of business behaviour.”

“...This is a real tragedy, not just for those directly affected, but also for the overwhelming majority of fine, trustworthy and honourable executives...dependent on public confidence and trust”.

“How do we define ethical conduct? One view is that anything which is legal is ethical - legal standards are appropriate standards to measure ethical conduct. At the opposite extreme, the view is that anytime you're in doubt, anytime your conscience gnaws at you, you're probably engaging in unethical conduct. The true standard is likely to be somewhere in between”.

At the time (1987) Michael Cook was chairman and CEO of Deloitte Haskins & Sells (now Deloitte & Touche) and chairman of the board of the American Institute of Public Accountants.

He has not been alone in recognising that business people regularly face difficult ethical decisions and that, because public opinion of “business” has been tarnished, it has a responsibility to improve its image.

Since Cook spoke these words there has been a far greater focus on ethics in business. But this has not prevented many still asking the question “isn’t business ethics a contradiction in terms”?.

This is often the first question to be raised in any discussion about “business ethics”. The answer is that it doesn't have to be a contradiction in terms – an oxymoron.

Business, however, still has some way to go before the public places more trust in it.

Yet “businesses” don’t face tough decisions and dilemmas - the people who work for them do.

It is they that some sections of this website are aimed at. This section for some general background and the Decision Making Frameworks section for some assistance on how to face tough decisions including ethical dilemmas.

What is Ethics?

Anyone who thinks about what he or she ought to do is, consciously or unconsciously, involved in ethics.

Ethics deals with values, with good and bad, with right and wrong.

We cannot avoid involvement in ethics, for much of what we do - and what we don’t do – may be

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a possible subject of ethical evaluation.

Whether we realise it or not, we quite often appraise each other's behaviour and attitudes from the moral point of view. We say, for example, that:

· we did the wrong thing when we refused to give to charity this year

· we did the right thing when we handed in the wallet we found on the street

· we would be better people if we displayed a greater sensitivity to the feelings of others

· or perhaps worse if in doing so we lost the special concern we have for our family and friends.

Most of us take appraisal of this sort pretty much for granted. To the extent that we worry about moral appraisal, we simply worry about getting it right.

But this concern assumes that correct answers are available to moral questions. We are likely to find, both in our personal and business lives, that this may not be the case.

Perhaps the lack of clear answers is why ethics has been a subject of debate for many thousands of years…and is likely to be so for many years to come!

…and why our website attempts to provide some guidance for those who may have to face tough decisions in business - including those which may conflict in some way with their personal values

A brief history of business ethics

'Greed' or 'avarice' is often cited as the sole engine of business life, and much of the history of business ethics is consequently not very flattering to business.

Although the subject of business ethics as currently practiced is not much over twenty years old, one can also trace that history back into medieval and ancient times, where, in addition to the attacks on business in philosophy and religion, such practical thinkers as Cicero gave careful attention to the question of fairness in ordinary business transactions.

In a broad sense, business has been around at least since the ancient Sumerians who (according to Samuel Noah Kramer) carried out extensive trading and record-keeping nearly six thousand years ago. But business has not always been the central and respectable enterprise that it is in modern society and the ethical view of business for most of history has been almost wholly negative.

Aristotle, who may deserve recognition as the first economist (two thousand years before Adam Smith) distinguished two different senses of what we call economics:

- oikonomikos or household trading, which he approved of and thought essential to the working of any even modestly complex society, and
- chrematisike or trade for profit which Aristotle declared as wholly devoid of virtue and called those who engaged in such purely selfish practices 'parasites'.

Aristotle's attack on the unsavoury and unproductive practice of 'usury' held force virtually until the seventeenth century. Only outsiders at the fringe of society, not respectable citizens, engaged in such practices. Shakespeare's Shylock, in The Merchant of Venice, was an outsider and a usurer.

This, on a large historical canvas, is the history of business ethics - the wholesale attack on business and its practices. Jesus chased the money-changers from the temple and Christian moralists from Paul to Thomas Aquinas and Martin Luther followed his example, roundly condemning most of what we today honour as 'the business world'.

But if business ethics as condemnation was led by philosophy and religion, so too was the dramatic turn-around towards business in early modern times. John Calvin and then the English Puritans taught the virtues of thrift and enterprise. Adam Smith canonised the new faith in 1776 in his masterwork, The Wealth of Nations.

Of course, the new attitude to business was not an overnight transformation and was built on traditions with a long history. The medieval guilds, for example, had established their own

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industry-specific codes of 'business ethics' long before business became the central institution of society.

Yet the general acceptance of business and the recognition of economics as a central structure of society depended on a very new way of thinking about society that required not only a change in religious and philosophical sensibilities but, underlying them, a new sense of society and even of human nature.

This transformation can be partly explained in terms of

- urbanisation
- larger more centralised societies
- the privatisation of family groups as consumers
- rapidly advancing technology
- the growth of industry and
- the accompanying development of social structures, needs and desires.

With Adam Smith's classic work, chrematisike became the central institution and primary virtue of modern society. But the degraded popular ('greed is good') version of Smith's thesis was hardly conducive to the subject of business ethics ('isn't that a contradiction in terms?') and moralising about business retained its ancient and medieval bias against business.

Businessmen like Mellon and Carnegie gave public lectures on the virtues of success and the noblesse oblige of the rich, but business ethics as such was for the most part developed by socialists, as a continued diatribe against the amorality of business thinking.

It is only very recently that a more moral and more honourable way of viewing business has begun to dominate business talk, and with it has come the idea of studying the underlying values and ideals of business.

We can readily understand how freedom of the market will always be a threat to traditional values and antagonistic to government control, but we no longer so glibly conclude that the market itself is without values or that governments better serve the public good than markets.

The myth of the profit motive

Business ethics is no longer concerned solely or primarily with the criticism of business and business practice. Profits are no longer condemned along with 'avarice' in moralising sermons and corporations are no longer envisioned as faceless, souless, amoral monoliths.

The new concern is just how profit should be thought of in the larger context of productivity and social responsibility and how corporations as complex communities can best serve both their own employees and the surrounding society.

Business ethics has evolved from a wholly critical attack on capitalism and 'the profit motive' to a more productive and constructive examination of the underlying rules and practices of business. But the old paradigm - what Richard DeGeorge has called 'the myth of amoral business' - persists, not only among the suspicious public and some socialist-minded philosophers but among many businesspeople themselves.

The first task in business ethics, accordingly, is to clear the way through some highly incriminating myths and metaphors, which obscure rather than clarify the underlying ethos that makes business possible.

Every discipline has its own self-glorifying vocabulary. Politicians bask in the concepts of 'public service' while they pursue personal power, lawyers defend our 'rights' on the basis of handsome fees... But in the case of business the self-glorifying language is often especially unflattering.

For example, executives still talk about what they do in terms of 'the profit motive', not realising that the phrase was invented by the last century's socialists as an attack on business and its narrow-minded pursuit of money to the exclusion of all other considerations and obligations.

Of course a business does aim to make a profit, but it does so only by supplying quality goods and services, by providing jobs and by 'fitting in' to the community. To single out profits rather than productivity or public service as the central aim of business activity is just asking for trouble.

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Profits are not as such the end or goal of business activity: profits get distributed and reinvested. Profits are a means to building the business and rewarding employees, executives and investors. For some people, profits may be a means of 'keeping score', but even in those cases, it is the status and satisfaction of 'winning' that is the goal, not profits as such.

A more sophisticated but not dissimilar executive self-image states that the managers of a business are bound above all by one and only one obligation - to maximise the profits for their shareholders. We need not inquire whether this is the actual motive behind most upper management decisions in order to point out that, while managers do recognise that their own business roles are defined primarily by obligations rather than the 'profit motive', that unflattering image has simply been transferred to the shareholders (i.e. the owners).

Is it true that investors/owners care only about the maximisation of their profits? Is it the shareholder, finally, who is the incarnation of that inhuman homo economicus who is utterly devoid of civic responsibility and pride, who has no concern for the virtues of the company he or she (or it?) owns, apart from those liabilities that might render one vulnerable to expensive law suits?

And if some four-month 'in and out' investors do indeed care only about increasing their investments by 30 per cent or so, why are we so certain that the managers of the firm have any obligation to them other than not to intentionally fritter away or waste their money? The pursuit of profits is not the ultimate, much less the only goal of business. It is rather one of many goals and then by way of a means and not an end-in-itself.

This is how we misunderstand business: we adopt a too narrow vision of what business is (such as the pursuit of profits) and then derive unethical or amoral conclusions. It is this inexcusably limited focus on the 'rights of the shareholders', for example, that has often been used to defend corporate excesses.

To say this is not to deny the rights of shareholders to a fair return, of course, nor is it to deny the 'fiduciary responsibilities' of the managers of a company. It is only to say that these rights and responsibilities make sense only in a larger social context and that the very idea of 'the profit motive' as an end in itself - as opposed to profits as a means of encouraging and rewarding hard work and investment, building a better business and serving society better - is a serious obstacle to understanding the rich tapestry of motives and activities that make up the business world.

"Survival of the fittest" – Competition or Cooperation?

Among the most damaging myths and metaphors in business talk are those macho 'Darwinian' concepts of 'survival of the fittest' and 'it's a jungle out there'.

The underlying idea, of course, is that life in business is competitive and it isn't always fair. But that obvious pair of points is very different from the 'dog-eat-dog', 'every [man] for [him]self' imagery that is routine in the business world.

It is true that business is and must be competitive, but it is not true that it is cut-throat or cannibalistic or that 'one does whatever it takes to survive'. However competitive a particularly industry may be, it often rests on a foundation of shared interests and mutually agreed-upon rules of conduct. The competition takes place not in a jungle but in a community which it presumably both serves and depends upon.

Business life is first of all fundamentally co-operative. It is only within the bounds of mutually shared concerns that competition is possible. And quite the contrary of the 'every animal for itself' jungle metaphor, business almost always involves large co-operative and mutually trusting groups, not only corporations themselves but networks of suppliers, service people, customers and investors.

Competition is essential to capitalism, but to misunderstand this as 'unbridled' competition is to undermine ethics and misunderstand the nature of competition too.

The most persistent metaphor, which seems to endure no matter how much evidence is amassed against it, is "atomistic individualism". The idea

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that business life consists wholly of mutually agreed-upon transactions between individual citizens (avoiding government interference) can be traced back to Adam Smith and the philosophy which dominated eighteenth-century Britain.

But most of business life today consists of roles and responsibilities in co-operative enterprises, whether they be small family businesses or gigantic multi-national corporations. Government and business are as often partners as opponents (however frustrating the labyrinth of 'regulation' may sometimes seem), whether by way of subsidies, tariffs and tax breaks or as an intimate co-operative enterprise.

But atomistic individualism is not only inaccurate in the face of the corporate complexity of today's business world; it is naive in its supposition that no institutional rules and practices underlie even the simplest promise, contract or exchange. Business is a social practice, not an activity of isolated individuals. It is possible only because it takes place in a culture with an established set of procedures and expectations and these are not (except in the details) open to individual tinkering.

Accordingly, it is a sign of considerable progress that one of the dominant models of today's corporate thinking is the idea of a 'corporate culture'. As with any analogy, there are, of course, disanalogies, but it is important to appreciate the virtue of this metaphor. It is social, and rejects atomistic individualism. It recognises the place of people in the organisation as the fundamental structure of business life. It openly embraces the idea of ethics. It recognises that shared values hold a culture together.

There is still room for that individualistic maverick, the 'entrepreneur', but he or she too is possible only insofar as there is a role (an important one) for eccentricity and innovation. But the problem with the 'culture' metaphor, too, is that it tends to be too self-enclosed. A corporation does not exist in isolation. A corporate culture is an inseparable part of a larger culture, at most a sub-culture (or a sub-sub-culture), a specialised organelle in an organ in an organism.

Indeed, it is the tendency to see business as an isolated and insulated endeavour, with values different from the values of the surrounding society, that characterises all of these myths and metaphors. Breaking down this sense of isolation is one of the main tasks of business ethics.

Micro, macro and molar ethics

We might well distinguish between three (or more) levels of business and business ethics, from the micro - the rules for fair exchange between two individuals, to the macro - the institutional or cultural rules of commerce for an entire society ('the business world'). We should also carve out an area which we can call the molar level of business ethics, concerning the basic unit of commerce today - the corporation.

Micro-ethics in business, of course, is very much part and parcel of much of traditional ethics - the nature of promises and other obligations, the intentions, consequences and other implications of an individual's actions, the grounding and nature of various individual rights. What is peculiar to business micro-ethics is the idea of a fair exchange and, along with it, the notion of a fair wage, fair treatment, what counts as a 'bargain' and what instead is a 'steal'. Aristotle's notion of 'commutative' justice is particularly at home here. Even the ancients used to worry, from time to time, whether, for example, the seller of a house was obliged to tell a potential buyer that the roof had had its day and might start to leak at the first heavy rains.

Macro-ethics, in turn becomes part and parcel of those large questions about justice, legitimacy and the nature of society that constitute social and political philosophy. What is the purpose of the 'free market' - or is it in some sense a good of its own, with its own telos? Are private property rights primary, in some sense preceding social convention (as John Locke and more recently Robert Nozick have argued), or is the market too to be conceived as a complex social practice in which rights are but one ingredient? Is the free market system 'fair' ? Is it the most efficient way to distribute goods and services throughout society? Does it pay enough attention to cases of desperate need (where a 'fair exchange' is not part of the question)? Does it pay enough attention to merit, where it is by no means guaranteed that virtue will be in sufficient

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demand so as to be rewarded? What are the legitimate (and illegitimate) roles of government in business life, and what is the role of government regulation? Macro-ethics, in other words, is an attempt to take in the 'big picture', to understand the nature of the business world and its functions as such.

The definitive 'molar' unit of modern business, however, is the corporation, and the central questions of business ethics tend to be unabashedly aimed at the directors and employees of those few thousand or so companies that rule so much of commercial life around the world. In particular, they are questions that concern the role of the corporation in society and the role of the individual in the corpor- ation. Not surprisingly, many of the most challenging issues are found in the interstices of the three levels of ethical discourse, for instance, the question of corporate social responsibility - the role of the corporation in the larger society, and questions of job-defined responsibilities -the role of the individual in the corporation.

The corporation in society: the idea of social responsibility

The central concept of much of recent business ethics is the idea of social responsibility. It is also a concept that has irritated many traditional free market enthusiasts and prompted a number of bad or misleading arguments. Perhaps the most famous of these is the piece by Nobel-winning economist Milton Friedman in The New York Times (13 September 1970) entitled 'The social responsibility of business is to increase its profits'.

In this article, he called businessmen who defended the idea of corporate social responsibility 'unwitting puppets of the intellectual forces that have been undermining the basis of a free society' and accused them of 'preaching pure and unadulterated socialism'. Friedman's argument is, in essence, that managers of a corporation are the employees of the shareholders and, as such, have a 'fiduciary responsibility' to maximise their profits.

Giving money to charity or other social causes (except as public relations aimed at increasing business) and getting involved in community projects (which do not increase the company's business) is akin to stealing from the shareholders. Furthermore, there is no reason to suppose that a corporation or its officers have any special skill or knowledge in the realm of public policy, and so they are over-extending their competence as well as violating their obligations when they get involved in community activities (that is, as managers of the company, not as individual citizens acting on their own).

Some of the fallacies involved in such reasoning are consequent to the narrow 'profit-minded' view of business and the extremely unflattering and unrealistic one-dimensional portrait of the shareholder.

The 'competence' argument (also defended by Peter Drucker in his influential book on Management) makes sense only insofar as corporations undertake social engineering projects that are indeed beyond their abilities; but does it require special skills or advanced knowledge to be concerned about discriminatory hiring or promotion practices within your own company or the devastating effects of your waste products on the surrounding countryside?

The overall rejoinder to Friedman-style arguments of this sort that has recently become popular in business ethics can be summarised in a modest pun: instead of the 'shareholder' the beneficiaries of corporate social responsibilities are the stakeholders, of whom the shareholders are but a single sub-class.

The stakeholders in a company are all of those who are affected and have legitimate expectations and rights regarding the actions of the company - these include the employees, the consumers and the suppliers as well as the surrounding community and the society at large. The virtue of this concept is that it greatly expands the focus of corporate concern, without losing sight of the particular virtues and capacities of the corporation itself. Social responsibility, so considered, is not an additional burden on the corporation but part and parcel of its essential concerns, to serve the needs and be fair to not only its investors/owners but those who work for, buy from, sell to, live near or are otherwise affected by the activities that are demanded and rewarded by the free market system.

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Obligations to stakeholders: consumers and community

The managers of corporations have obligations to their shareholders, but they have obligations to other stakeholders as well. In particular, they have obligations to consumers and the surrounding community as well as to their own employees.

The purpose of the corporation, after all, is to serve the public, both by way of providing desired and desirable products and services and by not harming the community and its citizens. For example, a corporation is hardly serving its public purpose if it is polluting the air or the water supply, if it is snarling traffic or hogging communal resources, if it is (even indirectly) promoting racism or prejudice, if it is destroying the natural beauty of the environment or threatening the financial or social well-being of the local citizens.

To consumers, the corporation has the obligation to provide quality products and services. It has the obligation to make sure that these are safe, through research and through appropriate instructions and, where appropriate, warnings against possible misuse.

Manufacturers are and should be liable for dangerous effects and predictable abuse of their products, such as the likelihood of a young child swallowing a small, readily detachable piece of a toy made specially for that age group, although it is increasingly being asked whether and to what extent we should reinstate that now ancient caveat, 'Buyer Beware', to counteract the runaway trend toward consumer irresponsibility and unqualified corporate liability.

Consumer intelligence and responsibility are also at issue in the much-debated topic of advertising, against which some of the most serious criticisms of current business practices have been directed. The classic defence of the free market system is that it supplies and satisfies existing demands. But if manufacturers actually create the demand for the products they produce, then this classic defence is clearly undermined.

Indeed, it has even been charged that advertising is itself coercive in that it interferes with the free choice of the consumer, who is no longer in a position to decide how best to satisfy his or her needs but has instead been subjected to a barrage of influences which may well be quite irrelevant or even opposed to those needs. And even where the desirability of the product is not in question. there are very real questions about the advertising of particular brand names and the artificial creation of 'product differentiation'. And then there are those familiar questions of taste - on the borderline (and sometimes over) between ethics and aesthetics.

When a medical product is advertised on the basis of misleading, incomplete or simply untrue technical information, when an over-the-counter 'cold remedy' is sold with the promise but without any hard evidence that it can relieve symptoms and prevent complications, when known and dangerous side-effects are hidden behind a generic 'with this as with all medicines, check with your doctor', then seemingly simple 'truth in advertising' becomes a moral imperative and ethical principles (if not the law) have been violated.

It has often been argued that in an ideally functioning free market the only advertising that should be either necessary or permitted is pure information regarding the use and qualities of the product. But in certain circumstances, the average consumer may neither have nor be able to understand the relevant information concerning the product in question.

In a great many cases, however, consumers take too little responsibility for their own decisions and one cannot properly blame advertising for their irresponsibility or irrationality.

Corporations have responsibilities to their customers, but consumers have responsibilities too. As so often, business ethics is not a question of corporate responsibility alone but an interlocking set of mutual responsibilities.

The individual in the corporation: responsibilities and expectations

Perhaps the most abused stakeholder in the pattern of corporate responsibilities is the company employee. In traditional free market theory, the employee's labour is itself just one more commodity, subject to the laws of supply and demand. But whereas one can sell products

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that are no longer in demand at 'firesale' prices, the employee is a human being, with very real needs and rights quite apart from his or her role in production or in lot in the market.

Cramped uncomfortable working space or long, gruelling hours for employees may reduce overhead or increase productivity, and paying subsistence wages to employees who for one reason or another cannot, dare not or do not know how to complain may increase profits, but such conditions and quite practices are now recognised by all but the most unreconstructed 'Darwinian' to be highly unethical and legally inexcusable.

And yet, the 'commodity' model of labour still holds powerful sway over much business thinking, concerning managers and executives as well as workers, both skilled and unskilled.

It is for this reason that much of recent business ethics has focused on such notions as employees' rights and, from a very different angle, it is for this reason too that the old notion of 'company loyalty' had come back into focus. After all, if a company treats its employees as nothing but disposable parts, no-one should be surprised if the employees start treating the company as nothing but a transient source of wages and benefits.

The other side of this disturbing picture, however, is the equally renewed emphasis on the notion of employee roles and responsibilities, one of which is loyalty to the company. It cannot be over-emphasised that 'loyalty' here is a two-way concern; the employee may by virtue of his or her employment have special obligations to the company but the company has its obligations to the employee in turn.

But there is a danger in stressing such concepts as 'loyalty' without being very clear that loyalty is tied not just to employment in general but to one's particular role and responsibilities as well.

A role, according to R. S. Downie, is 'a side-cluster of rights and duties with some sort of social function' - in this case, a function in the corporation (Roles and Values, p.128). Certain aspects of one's role and responsibilities may be specified in an employment contract and in the law, but many of them - for example, the local customs, patterns of deference and other aspects of what we earlier called 'the corporate culture' - may become evident only with time on the job and continued contact with other employees. Moreover, it is not just a matter of 'doing one's job' but, as a matter of ethics as well as economics, doing one's job as well as possible. Norman Bowie says in this regard, I think rightly, 'A job is never just a job'. It also has a moral dimension: pride in one's product, co-operation with one's colleagues and concern for the well being of the company.

But, of course, such role-defined obligations have their limits (however conveniently some managers tend to deny this). Business is not an end in itself but is embedded in and supported by a society that has other, overriding concerns, norms and expectations.

We sometimes hear employees (and even high level executives) complain that their 'corporate values conflict with their personal values'. What this usually mean is that certain demands made by their companies are unethical or immoral. What most people call their 'personal values' are in fact the deepest and broadest values of their culture. And it is in this context that we should understand that now-familiar tragic figure of contemporary corporate life - the 'whistle-blower'.

The whistle-blower is not just some eccentric who cannot 'fit' into the organisation he or she threatens with disclosure. The whistle-blower recognises that he or she cannot tolerate the violation of morality or the public trust and feels obliged actually to do something about it. The biographies of most whistle-blowers do not make happy reading, but their very existence and occasional success is ample testimony to the interlocking obligations of the corporation, the individual and society. Indeed, perhaps the most singularly important result of the emergence of business ethics in the public forum has been to highlight such individuals and give renewed respectability to what their employers wrongly perceive as nothing but a breach of loyalty.

But when the demands of doing business conflict with the morality or well-being of society, it is business that has to yield, and this, perhaps, is the ultimate point of business ethics.