Fourth Edition

Business Ethics and Values

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Alan Lovell
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Individual, Corporate and International Perspectives

Fourth edition

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Introduction

The fourth edition of this book has undergone substantial updating and restructuring to ensure that the balance of its content matches the current priorities and issues. We recognize that the issues encompassed within the field that we still refer to as ‘business ethics’ have, since the first edition, been labeled as corporate social responsibility (CSR) and that more recently the term sustainability has become the all-embracing term for the subject of this book. Néstor Valero-Silva and Shishir Malde have joined with Colin Fisher and Alan Lovell in the task of bringing these new themes to the fore in this new edition of the book.

Corporations represent the arenas within which most people spend much of their waking lives and the sheer scale of some of their operations makes many multinational corporations more influential in world affairs (not just business affairs) than some governments. Hence the actions of corporations, whether judged ‘good’ or ‘bad’, can affect many, many people, both within the organisations and outwith. Minimising the negative effects of corporate behaviour thus becomes an issue, not just for business, but for the political and social spheres of human activity.

However, the simple labels of ‘good’ and ‘bad’ will often represent gross oversimplifications of what could be complex and dynamic issues and situations. We are often faced with dilemmas, with the options available to us containing both positive and negative aspects. This book has been written not only to allow you to understand the ethical underpinnings of such complex situations, but also to allow you to determine where the weight of evidence might lie in any given case or situation.

At the time we wrote the first edition of the book the bankruptcies of Enron and WorldCom were just beginning to unfold. As we applied the finishing touches to the second edition, the senior officials of Enron had yet to stand trial, but Bernie Ebbers, the chief executive of WorldCom, had been found guilty of an $11bn fraud. He was sentenced to 25 years. Jeffrey Skilling of Enron received a 24 year jail sentence. As we finish the third edition, we knew that Kenneth Lay, the Chief Executive of Enron had died in 2006 without having been sentenced, However, for the companies who were part of these organisations’ supply chains, the company’s employees, their investors and other involved groups and individuals, these outcomes were scant consolation. Many had lost their livelihoods, with the personal turmoil and distress that invariably follows. As we prepare the current fourth edition of the book new scandals have emerged, the latest in the line of Enron type scandals was the admission by Olympus the Japanese camera and optical company that it had been disguising losses for many years. Perhaps the revelations of these scandals suggest that the business, or economic, sphere of human activity cannot exist for long without an ethical base. Mistrust, cheating, conniving, deceit and fraudulent behaviour are the quicksand upon which no business system can be built.

Far more than many other books on business ethics we have devoted considerable attention to business ethics at the individual level, without underplaying the need also to look at business ethics at the corporate level. The reason for this attention to the individual is that ultimately the actions taken in the name of corporations will in fact be decisions made by individuals, acting either in groups or alone. This is not to deny that corporations can develop a form of persona, what we might call ethical culture, which can be transmitted and maintained through stories, myths, legends and artefacts, which we explore in Chapter. The effects of these actions and cultures will be felt by (other) individuals, either collectively or singly. It is for these reasons that we give to the individual such attention.

A second major feature of our approach is to stress the centrality of argumentation within business ethics. At its heart the subject is devoid of facts. It is a collection of theories, beliefs and arguments. It is no less important because of this; indeed we believe it to be profoundly important. With its roots set in argumentation we need to help you gain confidence in understanding the various ethical perspectives or stances. Most ethically charged situations are arenas for competing arguments, even if some of the arguments are judged weak, or fraudulent. Dealing with controversial issues must inevitably involve debate and argument and we believe that a primary aim of a book on business ethics should be to develop the skills of argumentation, or what are known as rhetorical skills. A new web-based toolkit for shaping such debates has been added to this new edition of the book.

We do not advocate particular positions in the book, for that would be hypocritical as educators. However, we do advance, in the closing chapter, a tentative manifesto for affecting ethics in business as a way of crystallising the issues and arguments raised in the book. Such a proposal also plots a possible way forward.

We make the case throughout the book that, whilst there are competing arguments concerning where the ethical high ground might be on particular issues, the competing arguments are unlikely to be equally valid or meritorious. Our objective has been to provide you with the knowledge and understanding necessary to be able to form your own reasoned arguments and ethically informed positions on the many varied and complex issues that permeate business life.

The opinions we may each hold and the behaviours we may display in different situations are likely to be affected by a range of issues, including the support of others, our dependents, the risks associated with the issue, where power lies and our respective values. Indeed, we devote time to the subject of values as reflected in the title of the book, because we believe values to be important elements in understanding both ethical reasoning and moral behaviour. Values can be said to act as filters and triggers for stimulating responses to ethically charged situations and we devote a whole chapter to considering the nature of values and their roles. However, we do not claim certain values to be superior to others. This is a matter about which each of us should come to our own conclusion. Our task, as authors, has been to help you analyse, explain, interpret and interrogate ethical situations, but not to prescribe how you should view the situations.

Our emphasis upon argument explains another feature of the book. As well as providing you with the basic material you would expect to find in a textbook on business ethics, we also develop new arguments that are subject to challenge and dispute. Consequently the book is not designed as a definitive work of reference (although where the material is standard we have treated it as authoritatively as we can). Instead, the book is intended to provide thoughts, ideas and provocations to stimulate your own thinking.

The book is designed for both undergraduate and postgraduate students; each may take from it what they need. The materials on ethical theories and ethical reasoning should be of use to both undergraduate and postgraduate students. These theoretical materials are provided to give you resources for developing arguments for and against particular positions on issues in business ethics. Undergraduate students tend to have limited business experience to draw upon when considering different ethical stances and theories. Thus, we have provided many case studies which are designed to illustrate the application of the various ethical theories. Postgraduate students may like to extend the case studies featured in the book by referring to their experiences in handling, or being aware of, ethically complex business situations. The case studies perform two roles. First, they provide practical applications of ethical theories and arguments, making the arguments more accessible and understandable. Second, they show, unequivocally, the relevance of business ethics for both individuals and societies by illustrating the pain and anguish that can ensue from corrupt, deceitful or other practices that might be judged immoral.

In addition to the case studies within each chapter, there are small tasks to undertake or challenges to respond to. At the close of each chapter we have provided suggested assignment briefs and activities that can be undertaken by groups, probably in seminar rooms.

The book provides more material than might be possible to cover in either an undergraduate or a postgraduate programme, thereby making a helpful complement to lectures and seminars, taking the subject beyond what might feasibly be explored in the time available for lectures and seminars. Thus, you should follow your tutor's guidance on which parts of the book are critical to your course, and where you can usefully extend your studies by studying parts of the book not able to be covered in the required depth during lectures or seminars. For postgraduate students and practising managers, the book should aid reflection upon personal and organisational experience.

The benefits offered by the study of the book are:

- a comprehensive review of standard/classical ethical theories, complemented by new perspectives to equip you for the challenges of organisational environments;
- a wealth of diagrams and charts that present overviews and contexts of the subject, which also act as useful study aids;
- 'definition' boxes that highlight and explain key themes;
- Cross-reference boxes, which make links between ethical theories that are considered in one part of the book with particular applications or arguments featured elsewhere in the book;
- real-life case studies that contextualise theory and provide springboards for debate;
- simulations and exercises that encourage you to reflect upon your own values and ethical standards;
- several of these activities have been converted into web-based interactive activities that makes them esaier and more fun to use;

- activities for group and seminar work that enliven study; a blend of academic theory and concrete issues that reflect the challenge and excitement of the subject; and
- a tentative proposal, offered by the authors for affecting ethics in business, as a way of 'making sense' of the many issues and arguments considered in the book and as a possible schema for debate.

The structure of the book

The book is divided into four main parts, each representing an important subset of business ethics.

Part A – Business ethics matters: what is it and why does it matter?

This opening section groups together the chapters that lay the foundation for the book.

Chapter 1: *Perspectives on business ethics and values*. This scene-setting chapter considers a range of issues, in preparation for the more focused chapters that follow. The chapter opens with the way values can be created, maintained and communicated via the medium of stories. The chapter moves on to provide an early exposure to the 'business case for business ethics'. There follows a consideration of stakeholder theory and then four dominant theories of the firm, each with its own underpinning set of assumptions as to what constitutes ethical behaviour. The chapter closes with a review of other theoretical positions, namely descriptive, normative and reflective approaches.

Chapter 2: *Ethical issues in business*. The purpose of this chapter is to move from the big questions to the particular issues. A 'map' is used to identify the range of ethical and moral issues to be found in business, organisations and management. Detailed case studies are provided to give you a clear understanding of the issues, many of which are referred to throughout the book.

Chapter 3: *Ethical theories and how to use them*. Having presented you in Chapter 2 with the range of ethical problems, this chapter describes the formal ethical theories and principles that are available for use in analysing them. The theories are largely drawn from the history of western philosophy (other philosophies are considered in Chapter 11). Few of the theories were developed with reference to business and so the chapter draws out the implications of the theories for organisations and the people within them.

Part B – Individuals' responses to ethical issues

A feature of our approach is our consideration of ethics in business from the perspective of the individual. This section groups together Chapters 4 to 6, with each chapter dealing with an important aspect of this broad focus.

Chapter 4: *Personal values and heuristics*. This chapter deals with the subject of values and decision making which we show to be a multifaceted subject. Five distinct perspectives on values are introduced and discussed to provide a thorough understanding of the issues involved.

Having presented an introduction to personal values we consider here how people might think through an ethically charged situation. We argue that personal values can be seen as filters through which the elements of any ethically charged situation are sieved (along with other filters such as perceptions of power, and the support of others), as an individual wrestles with an ethically complex situation. Heuristics are a form of 'cognitive short-cut', allowing us to handle complex, ill-defined and/or incomplete information in ways that have a logical rationality, at least from the perspective of the individual.

Chapter 5: *Individual responses to ethical situations*. Here we consider how an individual might define, or 'label', an ethical situation. The two dominant processes involved in 'labelling' are categorisation and particularisation and the choice will be heavily influenced by an individual's personal values. Categorisation, for example, would describe the situation where someone decided that an issue was a matter of following the core values set by an organisation, or that an issue was a question of loyalty. However, the particulars of a situation might make that person think that the categorisation is not right. It is the details of a situation that make people debate under which value an issue should be categorised or indeed whether it should be put in a separate category of its own.

Chapter 6: *Whistleblower or witness?* The concluding chapter in Part B considers ethical behaviour and specifically the employee who rails against an organisational practice to such an extent that, following failure to achieve resolution within the formal organisational structures, s/he reveals their concerns to another individual, whether inside the organisation or outside.

Part C – Organisational responses to ethical issues

This group of chapters moves our focus to the organisational level of analysis and considers the ethical obligations and accountabilities of corporations.

Chapter 7: *Corporate Governance, an organisation's external accountability*. Whether an organization is in the private, public or voluntary sectors it is important that it is held to account for its actions. The reasons why good corporate governance are important are explored. The chapter also looks at the standards of corporate governance that are expected and looks at its role in the areas of corruption and corporate manslaughter.

Chapter 8: *Compliance and Integrity, an organisation's internal accountability*. In this chapter we discuss the internal mechanisms that organisations employ to try to inculcate and maintain particular ethical practices and to identify those practices that are unacceptable. The most common of these mechanisms are codes of conduct and codes of ethics. Such codes can be developed by organisations to apply to their own internal processes and contexts, but codes are also developed by external bodies, sometimes in collaboration with large corporations to whom the codes relate, but sometimes without their co-operation. The chapter also considers ethical leadership and its role in developing an ethical organizational culture.

Chapter 9: *Corporate Social Responsibility*. Most organisations say they are committed to behaving in a socially responsible manner, and the chapter rehearse the big argument about the relative importance of meeting shareholders and stakeholders expectations. The chapter looks at Fairtrade, organisational diversity and CSR reporting as particular arenas of socially responsible behavior.

Chapter 10: *Sustainability*. In this chapter we consider the issue of sustainability from a variety of perspectives, including, but not limited to, environmental sustainability. We debate the current preference for a market-based 'business' solution to the problem of greenhouse gas emissions and the more general case of ethical egoism being the underpinning assumption of human behaviour in developing policy responses to the challenges of sustainable corporations and societies.

Part D – The international context

This section considers the international context of business ethics, but in Chapter 13, we bring the individual perspective back into consideration within both the international and the corporate contexts.

Chapter 11: *Global and local values – and international business*. It is a cliché to say that values and cultures vary, but recognition of the notion of 'difference' is an important issue for international organisations as they endeavour to operate in various cultural contexts without offending a wide range of sensibilities, values and laws. This chapter provides insights and comparisons between western operating contexts and those in the Asia, notably China and India.

Chapter 12: *Globalisation and international business*. Globalisation is a term that can arouse considerable passions, often negative. We consider the full gamut of issues that corporations operating at a global level face: their potential as forces for positive developments, and also their involvement in cases that illustrate the issues that trouble many concerning their power and their practices.

Chapter 13: *Moral agency at work and a modest proposal for affecting ethics in business*. This is much more than just a 'summing-up' chapter. Whilst we draw upon many of the issues, arguments and theories we have discussed in the preceding chapters, we take these forward by initially worrying about the implications of democratic ideals of what is termed 'globalisation', but more than this we also offer a tentative proposal for affecting ethics in business. The latter is a risky venture because it smacks of prescription, as if 'we know best'. That is why we have qualified our proposal with the adjective 'tentative'. However, the proposal addresses two important issues for us as authors. The first is that it pulls together into a coherent framework the key issues that we have highlighted and discussed in the book. Second, it provides a framework around which debates and arguments can be framed and possibly moved forward.

Chapter 14 *Concluding integrative case studies*

Two major case studies are presented, one focusing on social responsibility and the other on corporate governance, that provide the reader an opportunity to look at ethical issues within a realistic context.

A range of support materials is available to lecturers and students on the website for this book at www.pearsoned.co.uk/fisherlovellvalerosilva.

Acknowledgements

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Figures

Figures 1.1, 1.2, 1.3, 1.4 from *Does Business Ethics Pay?*, Institute of Business Ethics (Webley, S. and More, E. 2003); Figure 5.1 from *Strategic Human Resources. Principles, Perspectives and Practices,* Leopold, J. Watson, T. J. and Harris, L., Pearson Education Limited, © Pearson Education Limited 1999; Figure 9.2 from 'Toward a theory of stakeholder identification and salience: defining the principle of Who and What Really Counts', *The Academy of Management Review,* 22, 4, p. 874 (Mitchell et al. 1977), The International Academy of Management and Business; Figure 10.1 from *Good News & Bad: The Media, Corporate Social Responsibility and Sustainable Development,* The Beacon Press (2002) p. 7, SustainAbility 2002; Figure 11.1 from *Culture's Consequences,* 2nd edition, Sage (Hofstede, G.H.)

Tables

Table 4.2 from *Simple Heuristics that Make Us Smart,* Oxford University Press (Gigerenzer, G. and Todd, P. 1999) p. 87; Table 11.6 from Boxing with shadows: competing effectively with the overseas Chinese and overseas Indian business networks in the Asian Arena, *Journal of Organisational Change Management,* 11, 4, p. 308 (Haley, G. T. and Haley, U. C. V. 1998), Emerald Group Publishing Limited; Table 14.1 after data compiled by S. Malde from Mergent Online, http://www.mergentonline.com; Table 14.2 after Birmingham City Business School.

Text

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PART A

Business ethics matters: what is it and why does it matter?

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CHAPTER 1

Perspectives on business ethics and values

Chapter at a glance

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Learning outcomes

Having read this chapter and completed its associated activities, readers should be able to:

- Identify the good, tragic, comic, satirical and farcical elements in the way in which people and organisations deal with matters of ethics and morality.
- Explain the basic features of stakeholder theory.
- Evaluate the business case for business ethics and the validity of its claims.
- Give an account of the various arguments about the moral status of business, organisations and management.

Introduction

This chapter lays down the foundations of the book. Many of the foundations are stories and we start with stories that identify some of the issues, problems and dilemmas that form the subject of business ethics. We then tell one very important story about business ethics (at least in the UK and in the USA but not necessarily in other countries) in which there is a 'business case' for business ethics. In this moral tale, behaving well as a company has the fortunate consequences, according to the story, of increasing profits. The stories of business ethics have many characters, or in business speak – stakeholders; they are identified and their relative importance discussed in the next section. Finally there is a debate about whether all the stories of business ethics are about economics or whether moral, cultural and social perspectives should be included in the narratives.

Stories and business ethics

The study of business ethics begins with stories. Families and societies have always used stories to illustrate and reinforce their sense of values, justice and fairness. And so it is in business and organisations. There are the stories often found in organisational glossy newsletters of good deeds done by staff volunteering to work among disadvantaged groups and the benefits that the organisation has brought to the communities it works within. Then there are the more gossipy stories that are told, and half told, as episodes are interrupted by work or authority figures, that tell of jealousies and spites, corruption and abuse, lying and distortion.

Czarniawska (2004: 21) pointed out that there are four types of dramatic story in the European classical tradition – romances, tragedies, comedies and satires, each of which has its characteristic figure of speech. Each of them can represent different kinds of business ethics issues.

DEFINITIONS

Figures of speech

Metaphor

Makes comparisons by referring to one thing as a different thing. So calling all the employees in an organisation 'assets' is a metaphor. If you said of a chief executive officer 'she is a Branson among business leaders', this would be a use of metaphor and a means of making a hero of the CEO. It could also be a kind of paralipsis in which attention is drawn to something – that the CEO is a woman and Branson a man – while pretending to pass over it. As a form of irony this paralipsis could be taken as a criticism of the CEO.

Metonymy

Uses an attribute of something to represent the thing itself. Chairpersons sit in a chair when they hold a board meeting. The chair is their attribute, so they become known as chairs. In tragedy a single attribute can undermine a person's integrity; a good person is often brought low because of a part of their behaviour or character.

Synecdoche

Uses a part of something to represent the whole. Business people wear suits and so that particular aspect of them comes to represent them and their role. Others refer to them as suits, as in 'are the suits arriving today to check us out?' Suits are also a means by which business people present a good image of themselves. In comedy synecdoche points out the comic pretensions between ambition and reality. The smartness of the clothes can emphasise the vacuity of the wearer.

Irony

Speaking or writing in such a way as to imply the opposite of what is being said. Often used to imply mockery or jest. It is therefore the basis of much satire.

Romances are based on the quest of a single individual to achieve some noble goal that is only achievable because human beings have an innate, if sometimes well disguised, goodness. The Quaker heroes of the past such as Joseph Rowntree, who built model factories and villages for model workers, or more modern heroes such as Anita Roddick, who sought, against the odds, to make selling beauty products a beautiful process, are good examples. Such heroes become metaphors for their particular brand of ethical management.

Tragedies tell of people who try to behave well but who, by challenging fate, come to personal grief. The stories of whistleblowers who reveal corporate wrongdoing but in so doing lose their families, their homes and their livelihoods are a good example. Tragedy is based on metonymy, as in the film *The China Syndrome* (Bridges, 1979) in which Jack Lemmon plays an engineer in a malfunctioning nuclear power station who is the only person to be troubled by a vibration felt as a test procedure is conducted. The vibration is a metonym for the potential cataclysm that is waiting to happen.

Comedies are stories about how human imperfections and weaknesses make the achievement of a happy ending difficult. The ways in which companies operating in a new country often get their attempts to integrate wrong are a strong source of comedy. The western businessmen, for it is mostly men who would do this, who ignorantly offend their Arab business partners by putting their feet up on their desk after concluding a deal in an attempt to show that the formal business is over and everyone can relax, and so revealing the soles of their shoes, have a degree of comic potential. The dirty soles of the shoes act as a synecdoche, a part of the businessman that stands for the unwholesomeness of the whole man.

Satires work ironically. By contrasting people's behaviour with their words, or by defining the context in which the words are said, it is made clear that people meant the opposite of what they said. When corporations are accused of not taking care of

- customers, by not closing the doors on the *Herald of Free Enterprise* (*see* p. 288), or
- employees, as in the Bhopal incident in which 20,000 people were killed or harmed by a chemical leak from an American owned chemical works in the city (*see* p. 465) (the leak could have been prevented if procedures, management and maintenance had been rigorous), or
- the environment when the oil companies are accused of despoiling the Niger Delta (*see* p. 471),

organisations often reply by saying that the objects and subjects they have damaged are in fact their top priority. They thereby make themselves the object of satire. People then take such claims as ironies. In the film *Super Size Me*, Morgan Spurlock (2004) tested McDonald's claim that its food is not intrinsically unhealthy by living for a month on its products. Of course such a diet made him an unhealthier person (that is irony).

Cross reference	The ethical issues raised by the film *Super Size Me* are discussed in Case study 2.24 (p. 93).

There is, in business ethics as in life generally, a narrow point of balance

- between romance and satire
- and between tragedy and comedy.

These tensions are the narrative dynamic behind business ethics issues. The heroes of romances can easily become the subject of satirists' scorn. In the struggles between heroes and villains the heroes can overreach themselves and believe they really do have magical powers, in some cases literally. In 1999, in the oil producing delta region of Nigeria members of a cult known as the *Egbesu* began a violent campaign against, as they saw it, the despoliation of their homeland by the oil companies (Ibeanu, 2000: 28). Members of the cult believed that the charms they wore made them impervious to bullets. The heroes may then become ridiculous and the villains begin to look more benign. Tragedy can, uncomfortably, have comic elements. As Marx (1963: 1) pointed out, history repeats itself, 'first time as tragedy, second time as farce'. Just as commonly comedy can descend into tragedy. The difference between an organisational comedy of incompetence and a tragedy may be no more than the operation of chance. If luck remains with the organisation then we can all laugh at its bumbling, but if luck runs out the story can become tragic, for some. In December 2004 (Harding, 2004) a Delhi schoolboy from one of the elite schools, doubtless anxious to show off his new mobile phone with built-in camera, used it to take a video clip of his girlfriend providing him with oral sex. Unfortunately for him within a few days the video clip was on sale on Bazee.com, the Indian version of eBay, and indeed owned by eBay. The company took the item off the website as soon as it became aware of it but nevertheless an uproar ensued in India and a mildly, if in poor taste, comic event turned serious. The boy was taken to juvenile court and expelled from school. Avnish Bajaj, the CEO of Bazee.com and a US citizen, was arrested and thrown into the notoriously overcrowded Tihar gaol. For three people at least tragedy was a tale of prosperity, for a time, that ended in wretchedness. The matter was debated in the Indian parliament and the Bharatiya Janata Party (BJP) denounced the incident as the result of American 'interference'. The American government in its turn was taking a serious interest in Mr Bajaj's imprisonment. Condoleeza Rice, the soon to be American Secretary of State, was reported to be furious at the humiliating treatment meted out to an American citizen. The Indian software industry association called for Bajaj's immediate release.

It would seem that the issues and problems that form the subject of business ethics can appear in different forms, sometimes as romances, sometimes as tragedies, sometimes as comedies and sometimes as satires. It follows that stories are a good mechanism through which business issues can be studied and understood. If we can understand how the plots of these stories can lead to either good or bad outcomes we can develop an intuitive knowledge of how to encourage more happy endings than bad ones. Or at least the stories might palliate, or help us come to terms with, the dilemmas we face (Kirk, 1974: 83).

Case study 1.1

The *News of the World* story

One of the major business ethics stories in Britain during 2011 concerned its leading Sunday newspaper, the *News of the World* (*NoW*). The newspaper's success might be related to its focus on publishing stories of scandal amongst the rich, the powerful and the ranks of media celebrities. It was famous for one of its reporters disguising himself as a rich Arab from the Gulf in order to lure the naïve and the famous to do things that would make a good story when published in the newspaper. The paper was part of *News International*, which in turn was the UK arm of *News Corporation*, which is Rupert Murdoch's international media company. This example can be used to illustrate business ethics stories as examples of romances, tragedies, comedies and satires.

The story had begun several years earlier when the newspaper's royal correspondent, Clive Goodman, was accused of employing a private investigator to hack into voice messages on the phones of members of the Royal Family. Such invasion of privacy is a crime. Both the private investigator and the reporter were found guilty and were given prison sentences. Andy Coulson, the editor of the paper at the time, said that he had no knowledge of this illegal hacking and that this case had been a one-off aberration. The story refused to go away, however. There was continued speculation that instead of being an aberration, phone hacking was in fact a normal part of the paper's working practices. A number of prominent people such as John Prescott, who had been deputy prime minister, claimed that their phones had also been hacked. Other prominent people in the media industry came to out-of-court settlements with News International and dropped their allegations that their phones had been hacked in return for a sum of money. The story rumbled on and Coulson resigned as the paper's editor whilst still claiming that he had not known of, or authorised, the hacking.

Although the phone hacking story remained alive it did not attract wide concern amongst the general population; that is until 4 July 2011 when *The Guardian* newspaper published the story that the *NoW* had listened to, and deleted, messages on the phone of murdered schoolgirl Milly Dowler whilst the police investigation into her disappearance was ongoing. Ironically, given that *The Guardian* was reporting journalistic malpractice, it had later to admit that the messages may have been deleted automatically and not by agents of *NoW*. However, at that time, that a newspaper had acted so crassly led to a wave of public disgust that had massive repercussions for News International. This was a particularly difficult time for News International. It was already a major shareholder of BSkyB the major subscription TV company in the UK and was seeking to acquire a controlling interest in the company. As News International's newspapers were seen as having great influence over the electoral prospects of political parties many felt that the company already had too much influence and were unwilling for it to accumulate more by gaining complete control over BskyB. In July 2011 the government was about to decide whether to accept News International's compromise proposal, that it would float the news operation as a separate entity from the parent company to ensure its editorial independence if it was allowed to acquire control of BskyB. It was anticipated that the deal would be accepted by ministers. The Milly Dowler story changed all that. In turn News International published a public apology and made a private apology to the Dowler family for its actions; it closed down the *NoW*, although Rebekah Brooks the CEO of News International, and one-time editor of *NoW* kept her job. Later the company withdrew its compromise deal related to the BSkyB purchase and therefore the government referred the deal to the competition authorities. As the public furore strengthened, Rebekah Wade retired and she, together with Rupert Murdoch and his son, were questioned by a Parliamentary Select Committee. Later Rebekah Wade, Andy Coulson and others were arrested and questioned by the police investigating whether crime has been committed.

Only the bare outlines of the story have been recounted above, and particular aspects of it can be drawn out to illustrate the different types of business ethics stories.

A Romance: a hero as a metaphor for ethical behaviour

A romance is a story that lauds a hero. There are those involved in the phone hacking story for whom the metaphor of hero can be used. They are, amongst others, Nick Davies a reporter on *The Guardian* newspaper and Alan Rusbridger the paper's editor. They deserve to be seen as heroes because they continued to investigate and report upon the phone hacking story despite pressure from many to drop the investigation. In particular they came under pressure from senior officers from the Metropolitan Police to change their reporting about the claim that, after the initial Goodman hacking case, the police had dropped the investigation rather than following up the evidence that they had gathered that suggested that the hacking had been more widespread. It was implied that the decision to drop the case had been made to avoid making life difficult for the *NoW*. The Commissioner, Assistant Commissioner and Director of the Metropolitan Police had meetings with Rusbridger in December 2009 and February 2010. They sought to convince the editor that the reporting of the story was 'over egged and incorrect' and that 'Nick's (Davies) doggedness and persistence in pursuing the story was displaced' (Dodd, 2011a).

After the revelations about the Dowler phone hacking *The Guardian* and Nick Davies received praise for their persistence.

A tragedy: a metonym tarnishes a hero

Associated with the romance story is a related tale that has the character of a tragedy. Sir Paul Stephenson was appointed as Commissioner of the Metropolitan Police in 2009. He was regarded as a safe pair of hands and someone who would bring stability and disinterestedness to the Metropolitan Police after the enforced resignation of the previous Commissioner. He had had an impressive career working his way up from constable to the most important job in the police service. However in July 2011 Neil Wallis, who had been a deputy editor of *NoW,* was arrested as part of the Metropolitan Police's re-opened investigations into the phone hacking case. It then emerged that after his resignation Wallis had been appointed as a part-time PR consultant to the Metropolitan Police; and that he had dined many times with senior officers from the force. This revelation identified that at the time that Stephenson and his colleagues were trying to persuade *The Guardian* to change its reporting on the *NoW* story the Metropolitan Police was employing a former *NoW* employee who had been at the paper when it was using hacking to source its scoops. It was claimed that Wallis had not been involved with the Metropolitan Police's dealings with *The Guardian* but there remained the problem that the Commissioner and his assistant had not revealed to *The Guardian,* or to the politicians responsible for the police, that the appointment had been made. The allegation was that the Metropolitan Police's relationships with the *NoW* were too close; in part perhaps because police officers were afraid they would be made the subject of critical news stories. A further revelation that the Commissioner had recuperated at a health spa, free of charge, after an operation on his leg, and that Neil Wallis was also a PR consultant for the spa added to the pressure on him to resign (Dodd, 2011b; Boffey & Townsend, 2011). On 17 July he did resign, saying that he had not acted improperly but that the media pressure was distracting him from doing his job; and that it would be better if he resigned and allow someone else to take forward the important work facing the Metropolitan Police. This work included preparing the security arrangements for the 2012 London Olympics. A successful career was tragically ended when aspects or parts of his behaviour, metonyms of his wider role, undermined his broader reputation as a policeman of integrity.

A comedy: a synecdoche points up the humour of a situation

An ethics story as comedy can be illustrated by a different aspect of the hacking scandal. The comedy arises from the contrast between those parts of a journalist's arguments that express a commitment to high-flown principles and other parts that relish the publication of seedy details about the lives of celebrities. The journalist in question is Paul McMullan who at one time was deputy features editor at the *NoW*. The celebrities are Steve Coogan, a British comedian, and Hugh Grant, a film actor. McMullan had been responsible for publishing stories about these two, most notably the story of Hugh Grant's encounter with the prostitute Divine Brown in Los Angeles in 1995, which, Grant and Coogan believed, invaded their privacy. McMullan thought it was legitimate to publish stories about the private lives of celebrities who avidly sought publicity to advance their fame and wealth, and that phone hacking was not wrong in every case. He argued that the public were not critical when it involved a 'game' between celebrities and the popular media (*Daily Telegraph*, 2011). During the *NoW* scandal Grant's car broke down and a passing driver stopped and gave him a lift. The driver was Paul McMullan. Grant said he would return and have a drink with McMullan, who by then was running a pub, to thank him. When Grant met McMullan he was wired and managed to record McMullan saying that he thought phone hacking was quite routine at the *NoW*. The story was published in *The New Statesman* and the tabloid journalist was humiliated by the same underhand techniques that he himself advocated (Greenslade, 2011). Further humiliation occurred when Steve Coogan and Paul McMullan came face to face on a BBC *Newsnight* programme, McMullan looked every inch the stereotype of a seedy hack – stubbled, necktie loosened, his shirt collar open; perhaps this late evening TV show was just the last of many interviews that day? Steve Coogan mounted a ferocious attack calling McMullan 'risible… morally bankrupt' and someone who published gossip and claimed this was necessary to defend the freedom of the press. McMullan attempted to fight back. He argued that without invasive techniques there would be no freedom of the press and corrupt politicians would remain undetected. But under pressure he expressed a further motive in a feature that is common in British culture; delight in a famous person being brought down. As he put it: 'You (Coogan) were in the Green Room talking about the number of houses you have bought this year. Oh, we all feel terribly sorry for you . . . we do these [kiss & tell] stories and five million people read the newspaper, and then when a good story comes along, when bad guys get exposed, five million people read it'. Coogan replied sarcastically 'Oh I didn't realize you were on a moral crusade. I am sorry' (Thorpe, 2011).

A satire: exploiting irony

A final aspect of the *NoW* scandal illustrates a satirical aspect of the story. As *The Sun* newspaper also belonged to News International there was speculation in the media about whether the bad habits practised by *NoW* reporters were also practised by *Sun* reporters. There was no evidence that this was the case, and on 20 July Trevor Kavanagh, the associate political editor of *The Sun* went on the Radio 4 *Today* programme to say so (BBC, 2011). He was asked whether, as associate editor, he had asked questions or made enquiries to discover if hacking was practiced at *The Sun*. He said that he had not and that no one senior in the company had asked him to do so. He explained that, as there were no accusations or information that suggested reporters were hacking, there was no need to investigate. In any case he believed that '*The Sun* did not do it' and so there was no need to investigate. He would expect to be told if it became known that someone was hacking phones. In any case, he said, his title was an honorary one and that he had no executive role in *The Sun* and did not work in the office. Therefore he could not know what was happening in the paper's newsroom. The irony, which makes the interview a self-satire, is that reporters are meant to be investigators who delve and question to discover the truth yet in this instance Kavanagh, a well-respected political reporter, saw no need to question what was happening even though problems had been identified in a sister paper.

Activity 1.1 Is it ever ethical for a newspaper to use illegal means to expose political or business wrongdoing

There are always arguments for and against, when deciding whether an action is ethical or not; unless of course you are a person whose values and standards, however eccentric they may be, cannot be challenged by evidence or argument. Can there be circumstances when it is right for the media to use information obtained illegally or dubiously? In recent times there have been many examples of issues being brought to light by information obtained in such a manner. The British MPs expenses corruption scandal, when some Members of Parliament were discovered to be claiming expenses falsely and improperly, only became known because confidential Parliamentary data had been leaked to *The Telegraph* newspaper. On a wider scale there is the example of Julian Assange and *Wikileaks*.

In what, if any circumstances would it be right for the media to use improper or illegal means to obtain information to publish a story? Identify the arguments for and against the practice.

One of the long-running business ethics stories concerns a moral decision that faces profit-seeking organisations. It is a conflict between public duty and self-interest. Should they only exercise their social and environmental duty if it coincides with the financial interests of their owners? In this case they will be heroes in the stories of the owners but villains in the tales of everyone else. Or should they prevent the organisation harming society and the environment, beyond the demands of the law if necessary, even if it will hurt the owners' immediate interests? In this case their ascription to the roles of hero and villain in the stories will be reversed.

Following the Asian tsunami in 2004 many Australian companies made donations to the appeal fund. Stephen Matthews, a spokesman for the Australian Shareholders' Association (ASA), criticised the companies, saying that they had no approval for their philanthropy. He implied that companies should not make such donations without expecting something in return.

> Boards of directors don't have a mandate from their shareholders to spend money in this way. [ ] There is a role for business to make a contribution in relation to the tsunami, particularly those businesses who have activities up in South Asia. [ ] Where their businesses are dependent on those sorts of markets there could possibly be a benefit for shareholders in them making donations to relief.
>
> (ABC News Online, 2005a)

Later the Association's chief executive tried to limit the damage of the ensuing public disdain by clarifying the statement. The ASA was not opposed to companies making donations because 'it is in everyone's interests that the affected communities and economies recover as soon as possible'. Companies should, however, disclose to the shareholders the extent of their giving (ABC News Online, 2005b). Some commentators thought, uncharitably, that the rapid donations of cash and goods to the affected regions by some large companies was an attempt to have their brands associated with humanitarian good works (Simpson, 2005).

The story illustrates the question of whether a business case should be proven for acting in a socially and environmentally responsible way before it is necessary for an organisation to adopt the role. This is dealt with in the next section.

The business case for business ethics

Should private, profit-seeking organisations behave in a socially responsible and moral way, beyond the requirement of the law, because it is the right thing to do or because it pays them to do so? This might be seen as a moral dilemma; indeed in many ways it is the central issue in business ethics. If it is true that corporations that behave in a responsible and ethical manner do in fact make better returns for their owners than do those organisations that cut corners or behave badly, then the philosophical question of whether organisations ought to behave well is redundant. Do the well-behaved hero companies actually achieve their reward and despite their tribulations win through and enter into a successful long-term relationship with their investors and reach the top of the corporate financial performance league tables, or, in folk story terms, marry the princess and ascend the throne (Czarniawska, 2004: 78)? Several people have sought to answer this question.

There are sensible arguments that can be used to suggest that corporate bad behaviour can be bad for business. It would be logical to assume that a business that was seen to behave badly would lose the esteem and respect of its customers and so lose sales and profitability. A poor image would counteract the large sums that companies spend on developing their brands. Conversely if a company is associated with good behaviour, using renewable resources, not employing child labour in its factories in developing countries, and providing good training and development opportunities for its staff, this should be good for sales.

However, these benefits of good behaviour are not guaranteed. A brand untarnished by a poor reputation is most likely to affect the buying decisions of consumers, but less likely to influence business purchasers, who will rate a good deal before a sense of social responsibility. Bad corporate behaviour will only diminish reputation, and good behaviour boost it, if it becomes known. Many companies of course have PR departments and corporate communications departments that are designed to prevent harm being done to their brands and reputation. Making bad behaviour known requires that wrongdoing is seen and made public and that there are ways of measuring good behaviour so that credit can be given to those corporations that score well on some kind of ethics scale. There are measures of social, ethical and environmental performance, but these are mostly designed to meet the needs of the ethical investment community rather than consumers and purchasers.

Measures of corporate social, ethical and environmental performance

There are a number of standard measures, or more properly indices, that are available for assessing the social and environmental performance of corporations.

1. FTSE4Good

This index is calculated from a number of fators that cover the three areas of:

- working towards environmental sustainability;
- developing positive relationships with stakeholders; and
- upholding and supporting Universal Human Rights.

The factors are sometimes but not always measurable things. Judgments about whether a company is complying with international ethical standards are also included. A panel of experts meets to decide whether companies' performance entitles them to be included in the index.

2. **Dow Jones Sustainability Indices**
   The DJSI tracks the financial performance of companies that have committed to long-term sustainability. It is a guide for those who wish to invest in companies that are ethical or that profess a philosophy of sustainability.

3. **SERM Rating Agency**
   SERM rates companies on a scale of AAA+ to E according to how well the companies manage their environmental and socio-ethical risks. Twenty-five dimensions are used in three fields: environment, health and safety, and socio-ethical. The last category includes items such as use of corporate power, business practices and regard for human rights.

4. **Ethical Investment Research Service**
   EIRIS carries out research on companies worldwide and provides information for those who wish to invest ethically. It is a charity set up in 1983 by churches and charities that did not wish to invest any of their money in ethically dubious organisations.

The indices are all professionally designed and include checks and tests to ensure that the judgments they contain are valid; this, however, makes starker the fact that they are judgments rather than measures of social and environmental outcomes.

Webley and More (2003) have sought an empirical answer to the question whether business ethics pays. They faced the technical problem that there is no single and definitive measure of ethical performance. They happily admit that they have had to choose proxy or surrogate measures that are indicative of whether a company is behaving in an ethical and environmentally protective way but not conclusive proof that they are. (Commentators have taken a satirical delight in the fact that Enron was often commended for its ethics policies.) Webley and More chose the following measures:

1. Whether a company has a published code of ethics that has been revised within the past five years.
2. Companies' SERM rating.
3. Companies' ratings on *Management Today*'s 'Britain's Most Admired Companies' survey, which is carried out by Michael Brown of Nottingham Business School.

Their analysis showed that companies that had a code of ethics had better ratings on both SERM and the 'Most Admired Company' league tables than those that did not. Therefore, to keep things simple all they needed to check was whether companies with a code performed better financially than those that did not.

It might have been anticipated that when Webley and More (2003) came to consider how to measure the financial performance of companies the task would be easier, but there is a wide range of possible measures. They chose:

1. Market value added (MVA) – This is the difference between what investors have put into a company over a number of years and what they would get from it if they sold it at current prices.
2. Economic value added (EVA) – This is the amount by which investors' current income from the company is greater or less than the return they would get if they had invested the money in something else of equal risk. In other words it is the opportunity cost of placing money in a particular company.
3. Price earnings ratio (P/E ratio) – This is the market value of a share in a company divided by the shareholders' earnings.
4. Return on capital employed (ROCE) – This is a measure of the return that the capital invested in a company makes for its owners.

The results of their research into the relationship between a company's ethical standing and its financial performance is shown graphically in Figures 1.1, 1.2, 1.3 and 1.4.

Two cohorts, each a little short of 50, of large companies were chosen from the FTSE 350 for the study. The results indicate, *prima facie*, that companies within the sample that have a code of ethics (and hence score better on the SERM ratings and the 'Most Admired Company' tables than those who do not) also achieved a better MVA and EVA over the four-year period 1997–2000. Between 1997 and 2000 companies without a code had a greater ROCE than those that did, but by 2001 the position had reversed and those with a code performed better. The P/E ratio was more stable over the period of the study for companies with codes than it was for companies without. There is a strong indication that having a code, managing the non-financial risks of a company (as measured by SERM), and being rated by one's peers as a reputable company are associated with higher and more stable financial returns.

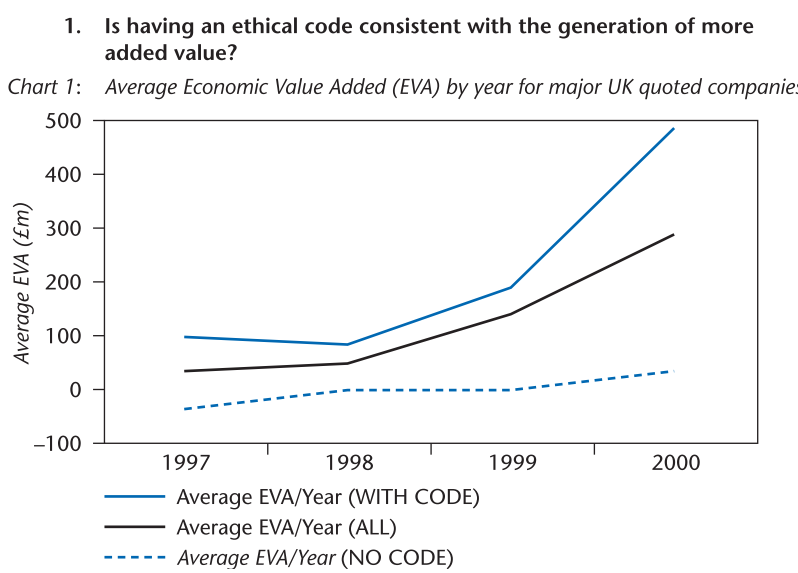

Figure 1.1 Does business ethics pay: does it add value?

Source: Webley and More, 2003

2. Is having an ethical code consistent with enhanced market value?

Chart 2: Average Market Value Added (MVA) by year for major UK quoted companies

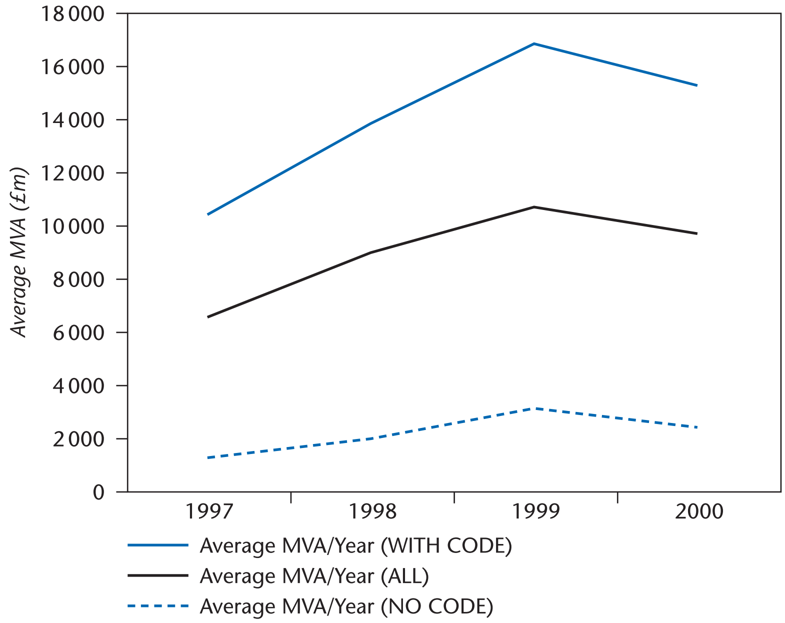

Figure 1.2 Does business ethics pay: does it enhance market value?

Source: Webley and More, 2003

3. Is having an ethical code consistent with an improved return on capital?

Chart 3: Return on Capital Employed (ROCE) by year for forty-two major UK quoted companies

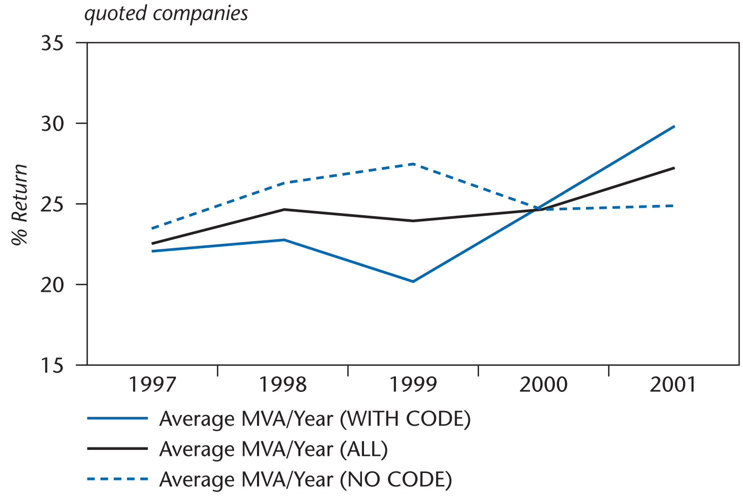

Figure 1.3 Does business ethics pay? Does it improve return on capital?

Source: Webley and More, 2003

4. Is having an ethical code consistent with a more stable Price/Earnings Ratio?

Chart 4: Price/Earnings Ratio (P/E) by year for forty-two major UK quoted companies

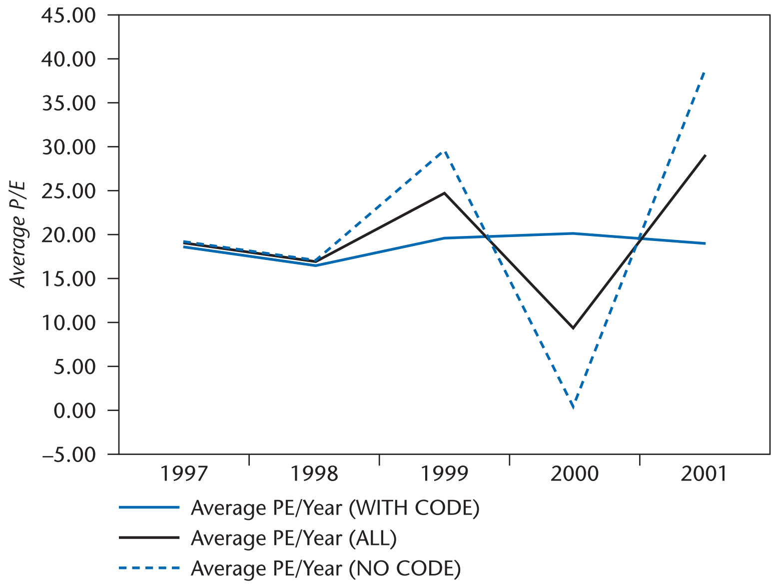

Figure 1.4 Does business ethics pay: does it improve the P/E ratio?

Source: Webley and More, 2003

However, this is not necessarily proof of the business case for business ethics. A statistical association does not mean that the adoption of ethical business practices is the cause of financial improvement. It could be the result of some different, and as yet unconsidered, factor. Moore (2001) conducted a study of the financial and social performance of eight retail supermarket companies in the UK over a three-year period. He found a number of statistical correlations but, because of the small sample size, only one was statistically significant. The social performance of companies was measured by a 16-factor index prepared by EIRIS (see p. 13). The correlations were:

- That social performance got worse as financial performance improved.
- But if social performance was compared with financial performance three years earlier the association was positive.
- That older companies did better on social performance than younger ones.
- And larger companies had a better performance than smaller ones; this was the one statistically significant finding.

These findings suggested that far from good social performance leading to improved financial effects the cause and effect relationship worked the other way around. That is to say, companies that do well financially find themselves with some money that they can spend on good works and improving their social and environmental performance. It takes time to implement these policies, hence the three-year time lag. The Institute of Business Ethics research could not be expected to identify this time lag because their key indicator, the presence or absence of a code of ethics, is not one that would fluctuate year on year, but the index that Moore used would. This direction of causation, from financial to social, is known as the Available Funding Hypothesis (Preston and O'Bannon, 1997). However, giving attention to these new social projects causes companies to take their eye off their main objective, making money. This distraction of attention, plus the fact that these projects can cost a lot of money, causes the financial performance to worsen. In response, companies return their efforts to financial performance. Commentators within the supermarket industry anticipated that as Sainsbury's and Marks and Spencer were performing less well financially, their social and environmental efforts would decrease.

These same commentators also speculated whether social and environmental performance might be related to the social class of customers (Moore and Robson, 2002: 27). Tesco and Morrisons served lower socio-economic groups (on average) who were less likely to be conscious of social and environmental concerns and so there would be no advantage to the company in taking a lead on such matters. The higher status groups who shopped in Sainsbury's and Marks and Spencer were more likely to be careful conservers of the natural and social world, and might begin to boycott the stores if they were not seen to be sufficiently interested in sustainability.

In a later study (Moore and Robson, 2002: 28–9) a more detailed statistical analysis was carried out between the 16 social performance indicators (instead of the aggregate result as in the first study) and an extended range of financial performance indicators. Negative, and statistically significant, correlations were found between growth in turnover and the league table rank of:

- the mission statements compared with those of others;
- the proportion of women managers compared with other companies;
- the environmental policy;
- the environmental management systems; and
- the social performance total.

In summary, this suggests that as companies increase their turnover their social performance worsens, or the obverse, that as their social performance improves their turnover declines. This adds support to the second part of the cycle suggested above, that social performance endangers financial performance, but does not of itself support the first part of the cycle, that companies flush with profits are inclined to spend some of the profits on social performance, even though, as we saw above, this is precisely what Sir Richard Branson says they should do. These results of course only apply to one industry – retailing and supermarkets.

There is an association between good social performance or ethical business practices and good financial returns. It is not clear, however, that it is the good social performance that increases profits. It may be the other way around. This conclusion is not necessarily dismissive of all concerns with business ethics from an organisational point of view. There may not be a financial case for actively and purposefully seeking to make a better social and environmental world. This does not mean that companies should not seek to minimise the potential costs of being found to have acted unethically or improperly. If a company or government department is sued for damages arising from its negligence or its bad behaviour, the costs of the case and the costs of the award can be very high. It may be wise to seek to avoid those actions and practices that could cost dearly; this management function is known as risk management. If a company can be shown through its risk management procedures to have taken every reasonable precaution to identify a potential malpractice or problem and to do what is reasonable to prevent it, then, even if the problem or malpractice happens and damages others, the company will have a legal defence.

So, unfortunately (although fortunately for textbook writers for if otherwise we would have to close the book at this point), it is not clear that there is a business case for business ethics, although on the defensive principle there is one for managing the financial risk of unethical or improper organisational behaviour. It is necessary to turn to other ways of deciding whether companies and organisations should act ethically and responsibly. This comes down to the question of whose interests companies and organisations should exist to serve. Should they serve the interests of society generally? Or should they serve the interest of particular groups within society? If so, which groups should they serve? It is the answer to these questions we now turn to.

Stakeholder theory

Cross reference

Stakeholder theory is a key and recurring theme in this book because ethics is concerned with the harm or good done to people. As different people may be affected differently by the same action then it is important to take these various impacts, some good and some bad, into account. The simplest way of doing this is to use stakeholder theory. The theory will be used and discussed in Chapters 9, and 11.

If we continue with the storytelling metaphor it is important to know who the characters in the story are. In terms of business ethics stakeholder theory provides an answer. It might be more accurate to say stakeholder theories, since there are various interpretations of what the term means. They share one attribute, however, which is that for any organisation there are a number of definable groups that have an interest, or a stake, in the actions of that organisation. There is more disagreement about what constitutes a stake. It is clear that the shareholders, the owners if it has any, have a legitimate stake in an organisation. So do its employees. At the other extreme the 'phishers', who fraudulently try to gain customers' bank account details through fake, spammed e-mails, obviously have an interest in the banks they attack; but it is hardly a legitimate one. So the issue is threefold:

- What responsibilities or duties, if any, does an organisation owe to its stakeholders? The fact that a stakeholder group may have a legitimate interest does not, of itself, mean that the organisation owes anything to it. At one extreme of the spectrum of possibilities an organisation may be obliged to do what its stakeholder group requires. If that group is society at large, as it expresses its will through legislation, then the organisation should submit to it. At a level below this, stakeholders could have the right to participate in the organisation's decision making. This might be accepted in the case of employees who are expected to commit to the organisation's objectives and decisions. It might not be right in the case of a judicial system's obligations to those being tried in a court. A lesser obligation might be a stakeholder group's right to be consulted before major decisions are taken. If not this, then at least the group might expect the organisation to give it an account of why it did what it did. At the other extreme, the organisation might owe the stakeholder group nothing.
- How should an organisation decide between its obligations to two or more stakeholders if they demand incompatible things from an organisation? What criteria should the organisation use when deciding which stakeholder group's wishes it should prioritise? Often in public service organisations the criterion used is a crude one – the group that shouts loudest is the one listened to. There is an interesting issue involved here. What if a constituency is not a person or persons but a thing or collection of things or ideas (these are known in sociological jargon as actants) such as rivers, nature reserves, spirituality? How can these things be given a voice? An easy answer might be that their voices are those of the lobby groups that support each particular cause. There is a problem here though. Some research indicates that, when lobby groups cause too much irritation to the organisation they are trying to influence, their reward is not to be listened to but to be shut out. If the cause of environmentalism is voiced by over-aggressive agitation then an organisation might close its ears to the problem when the cause itself is more deserving than its supporters' actions.
- What legitimate interests justify a group of people being regarded as a stakeholder in an organisation? A criterion often proposed is that stakeholders are any group that is affected by an organisation's actions. But this would give a commercial company's competitors a voice in its activities because their performance would be affected by the organisation's performance, which would not seem fair.

So far the discussion has focused on fair and open debate of ethical matters. But the question of who should have a voice in the debate is also an important ethical matter. This question can best be considered by looking at the application of stakeholder theory to ethical matters. This theory proposes that, for every organisation, stakeholder groups can be identified:

- who are affected by,
- who can affect, or
- whose welfare is tied into the actions of a corporation. It may be necessary to add a criterion of legitimacy to the identification of stakeholders. As Whysall (2000) pointed out, a shoplifter's welfare may be affected by a retailer's actions but that does not make them a legitimate stakeholder.

Donaldson and Preston (1995) presented four perspectives on the roles of stakeholder management.

- *Descriptive* – that the stakeholder theory describes what corporations are, i.e. constellations of interconnected interest groups.
- *Instrumental* – that if corporations adopt stakeholder management they will, all other things being equal, be more successful than those organisations that do not.
- *Managerial* – that the theory enables managers to identify options and solutions to problems.

But underpinning each of these roles was the fourth *normative* one: stakeholder theory can be used to develop moral or philosophical guidelines for the operations of corporations. In particular it forces corporations to make a broad ethical appreciation of their actions that considers their impact on communities as well as on the profit and loss account. Whysall used the case of companies that retail goods, at premium prices to affluent consumers, which were manufactured in sweatshop conditions in Third-World countries. A traditional management approach would only consider the benefits of the business model to the corporation and its customers. A stakeholder approach would also involve consideration of the impact upon the workforces, the communities and governments of the countries involved as well as activists and lobbyists.

The subject matter of business ethics is an attempt to answer these three questions. In the next section we consider four different answers, or perspectives, that are given in modern western, capitalist societies.

Business and organisational ethics

In this section four broad theories of the firm, and the assumptions and implications of these perspectives for prioritising the various stakeholders' needs and for the exercise of moral agency, are considered.

DEFINITION

Moral agency within organisations is the ability of individuals to exercise moral judgment *and behaviour* in an autonomous fashion, unfettered by fear for their employment and/or promotional prospects.

Organisation, in the sense we are using the term here, refers to any configuration of people and other resources that has been created to coordinate a series of work activities, with a view to achieving stated outcomes or objectives. At this stage we make no distinction as to whether an organisation is profit seeking, located within the public sector or is a charitable/voluntary organisation. The issues we discuss are largely, but not exclusively, sector-blind, although the intensity with which the issues are experienced may vary significantly between organisational types.

As will become evident as we progress through the chapters, the location of an organisation within the public sector does not make it immune from economic constraints, even economic objectives. Likewise, there is a growing body of opinion that argues forcibly that profit-seeking organisations should be more accountable to a body of citizens that extends considerably beyond shareholder-defined boundaries. While the distinctions between private sector and public sector, profit seeking and non-profit seeking, have become less clear-cut in recent years, we do not argue that all organisations are equivalent, and that the sector of the economy in which an organisation is located is irrelevant to understanding the ethical, political, economic and social constraints within which it operates. Penalties or sanctions for poor performance are possibly more obvious and severe in the profit-seeking sectors, but it can be argued that the multiplicity and complexity of the objectives managers are required to achieve in certain parts of the public sector make managing in such a context a far more demanding and ethically fraught role. Although each perspective assumes that organisational relationships are largely, if not exclusively, mediated by market dynamics, the extent to which 'the market' is relied upon as an exclusive mediating mechanism does vary.

Table 1.1 presents the schema of four perspectives to highlight the point that different imperatives and assumptions may underpin market-based, capitalist economies.

Within the four categories in Table 1.1 different assumptions are made about the relationships between:

- organisations and the state;
- organisations and their employees;
- organisations and their various stakeholder groups (i.e. beyond the employee group).

We need to understand these perspectives because they are helpful in appreciating the potential for, and the constraints we each face in exercising, moral agency within business contexts.

With the exception of the 'classical-liberal' category, each of the categories is an amalgam of a variety of theories, ideas and practices. The corporatist approach is referred to by Crouch and Marquand (1993) as 'Rhenish'. This latter term refers to a particular (German) approach to a market-based, capitalist-oriented economy, although the writers broaden their consideration beyond Germany to take in a wider group of non-Anglo-American market-based economies. Whilst the German approach displays important differences from the Japanese and the Swedish approaches, they have, for our purposes, been grouped together as representing a more corporatist approach, where the overt involvement of the state and employees in the running of individual organisations is an accepted practice.

This is not to say that the Anglo-American approach to economic development can be simply categorised within the 'classical-liberal-economic' group. Notwithstanding the rhetoric of various UK and US governments, state involvement has been required and forthcoming on many occasions in these two countries, often to overcome what is known as market failure. However, the common belief in the UK and USA leans towards the need for less, or minimal, government interference in business, and a drive towards market dynamics to facilitate organisational coordination.

Table 1.1 Theories of the firm and their ethical implications

Issue	Classical liberal economic	Pluralist (A and B)	Corporatist	Critical
Status of the category	1. For its advocates it is the only game in town, not merely the most efficient, but the most ethically justifiable	1. Type A. A stakeholder perspective is advocated in corporate decision making, with key interest groups physically represented on decision-making boards	Refers to the business relationships in countries such as Germany, Sweden and Japan (although the approaches adopted are not identical). The interests of employee groups, non-equity finance, and sometimes the state, are represented alongside the interests of equity shareholders, on senior decision-making boards	Ranging from descriptive theories category of the firm that portray how organisations appear to be (or are), rather than how they should be, to critical theorists who portray an organisational world beholden to the demands of capitalism or managerialism (these terms are not the same). Both approaches reflect messier and more ethically fraught worlds than tend to be suggested in the other three categories
2. For others the 'pure' model must be tempered by interventions to (a) minimise problems of short-termism, or (b) correct power imbalances	2. Type B. Individual managers weigh the full ethical and social considerations of their actions and decisions. Stakeholder groups would not necessarily be present at decisions			
3. Whilst for others the neo-classical model is a corrupting chimera that acts as a cover to camouflage the interests of the powerful				

Number of objectives recognised	One – meeting the demands of equity shareholders	Multiple – reflecting an array of stakeholder perspectives, although the actual mechanics remain problematic	A mix of equity shareholder, employee and non-equity finance perspectives, although the long-term economic interests of the firm are dominant	Multiple – reflected by the various coalitions and power groups within an organisation, particularly economic interests
Status of financial targets	Regarded as the organisation's primary or sole objective, because they will reflect the efficiency with which resources are being employed	Important, but do not dominate all other considerations. Ethical as well as multiple stakeholder perspectives are weighed in decision making	Important, but greater attention paid to the medium to longer-term financial implications of decisions than appears to be the general case in Anglo-American corporations	In highly competitive markets, or during periods of crisis, likely to be the dominant, although not the exclusive, organisational consideration. During periods of relative stability, other considerations will gain in significance and could dominate
Significance of ethical behaviour (both individual and corporate)	Defined by national and international laws, which are seen as both the minimum and maximum of required ethicality. The neo-classical model is argued to be the only approach that allows the primacy of individual interests to be reflected in economic and social coordination	At the heart of the debate for those who bemoan what is seen as the exclusive, or overly dominant, economic orientation of organisations	No clear evidence that ethical considerations feature more strongly in corporate decision making, although the lack of an exclusive shareholder perspective might offer greater potential for a broader societal perspective	An important, but variable, element in defining the reputation of the organisation. Will be shaped by the power of influential individuals and groups within and external to the organisation
Role of managers	Portrayed as functionalist, technicist and value neutral	Type A. Managers come into direct contact with specific sectional interest groups, which should affect decision making. Type B. Individual managers are required to have internalised a societal ethic into their decision making	The structures of organisations reflect a formal involvement of employee representatives, non-equity financiers and sometimes state representatives, alongside shareholder interests, on corporate decision-making boards	Complex, with competing and sometimes/often mutually exclusive interests and demands being required to be satisfied, including the managers' own agendas

Table 1.1 Continued

Issue	Classical liberal economic	Pluralist (A and B)	Corporatist	Critical
Status of employees	Resources to be used by the organisation in its quest to satisfy shareholder interests	Employees represent an important interest/stakeholder group within the organisation, although economic considerations are not ignored	Employee representation is guaranteed on some of the organisation's senior decision-making boards, e.g. supervisory boards in Germany	Operating within a capitalist mode of production, employee interests will vary between organisations, depending upon the power of individuals and groups of individuals
Values	Competition seen as the bulwark against power imbalances. Efficient resource allocation facilitated by profit-maximising behaviour	Inherently societal in orientation, but the views of those actually making decisions will be important	Those of the shareholders, employees, non-equity financiers (possibly the state) are likely to dominate	A complex interaction of multiple individual and corporate values. Critical theorists would single out the values that underpin capitalism
The possibilities for moral agency in organisations	The individual as consumer, as chooser, is the personification of moral agency, but the individual as moral agent when selling his or her labour is troublesome. The atomisation of society, which appears to be an inevitability of this form of individualism, is seen by many as leading to feelings of alienation and anomie	Type A. Multiple perspectives offer heightened possibilities, but medium to long-term organisational survival will dominate concerns. Type B. Very similar to Type A, but the confidence and integrity of individual managers becomes a critical issue	With employee representatives on the supervisory boards of organisations (as in Germany), the possibilities again appear stronger than with the liberal-economic perspective. However, economic considerations will remain dominant	Empirical evidence indicates that the suppression of moral agency might be more than minor and isolated aberrations in an otherwise satisfactory state of organisational affairs. Critical theorists would see these problems as an inevitable consequence of the demands of capitalism

The following is a closer examination of the four theories of the firm and their implications for moral behaviour within, and of, organisations.

The classical-liberal-economic approach

A classical-liberal theory of the firm places the organisation within an economic system that is made up of a myriad interconnecting but legally separate parts, and where relationships between these many parts are defined in terms of free exchange. Money acts as the facilitator of exchange, thus performing the role of the oil that greases the economic system's wheels. The 'invisible hand' that Adam Smith spoke of is the force that drives the mass of individual transactions. The argument is that, with no individual person or company able to affect price, the resulting transactions, and the prices that draw both suppliers and customers into the marketplace, reflect people's wishes. This is the strength of the claims for the ethicality of 'free' markets as espoused by writers such as Milton Friedman, Friedrick von Hayek and Ayn Rand. Individual choice, free of government coercion, is seen as the only ethical influence in shaping economic and social development.

Rand is probably the least well known of the three advocates of free markets mentioned above, although her advocacy appears to have been influential. She is reputed to be a favourite writer (she wrote novels rather than philosophical monographs) of Alan Greenspan, the Chairman of the American Federal Reserve from 1987 to 2006. Friedman's arguments in defence of a business world free of government or social obligations beyond those defined in law are considered in more depth in Chapter 8, so a little more time will be given here to consider some of the key thoughts of Rand on the subject of markets as the basis of economic and social coordination.

Ayn Rand was born in Russia in 1905, but she emigrated to America when she was 21, nine years after the 1917 Bolshevik uprising in Russia and four years after the civil war that followed the uprising. On arriving in America, Rand took a variety of low-paid, menial jobs. She is quoted as saying: 'I had a difficult struggle, earning my living at odd jobs, until I could make a financial success of my writing. No one helped me, nor did I think at any time that it was anyone's duty to help me'. Such snippets of historical and biographical features are helpful in understanding some of the factors that might explain an individual's philosophical position on key issues. Rand depicted man as 'a heroic being, with his own happiness as the moral purpose of his life, with productive achievement as his noblest activity, and reason as his only attribute'. Two of her novels have been recently republished (Rand, 2007a, 2007b). *The Fountainhead* first published in 1943 tells the story of Howard Roark, a ground-breaking, genius architect who has a clear vision of how buildings should be. He refuses to dilute the purity of his vision to suit the demands of clients and so business is bad and he becomes a manual labourer. But no matter, his integrity is preserved. He has many further setbacks. One of his buildings is built in ways that deviate from his design and so he blows it up. At his trial he expounds Rand's theories and is acquitted. As a recent reviewer (Crees, 2007) pointed out:

> Rand's characters make stands, but they rarely question themselves, and introspection is almost regarded as a form of serious thought-crime.

Her novel *Atlas Unshrugged* is was made into a film in 2011 but stars, such as Angelina Jolie, who were slated to be in it, were not.

Randianism (the term used by followers of Rand) rejects government in anything other than its minimalist form, i.e. that which can be justified to protect individual rights, such as the police, the law courts and national defence forces. All other functions can and should be operated by 'the people', preferably via market mediation, and paid for (or not) by choice.

Rand is credited with developing the philosophical position that is known as objectivism. Objectivism has three key elements:

Case study 1.2 **Biography and philosophy**

Bauman (1994) contrasts two philosophers, Knud Logstrup and Leon Shestov. Logstrup lived a tranquil and civilised life in Copenhagen. He wrote of human nature, 'It is characteristic of human life that we mutually trust each other . . . . Only because of some special circumstance do we ever distrust a stranger in advance . . . initially we believe one another's word; initially we trust one another' (Bauman, 1994: 1). Shestov, on the other hand, experienced great persecution during his life, under both the tsarist and anti-tsarist regimes and as a consequence had a far more pessimistic view of human nature, portraying the individual as one who is vulnerable and must at all times be ready to be betrayed. 'In each of our neighbours we fear a wolf . . . we are so poor, so weak, so easily ruined and destroyed! How can we help being afraid?' (Bauman, 1994: 2).

1. '*Reason* is man's [*sic*] only means of knowledge', i.e. the facts of reality are only knowable through a process of objective reason that begins with sensory perception and follows the laws of logic. Objectivism rejects the existence of a God, because it lacks (to date) empirical support. However, in America, some of the most strident advocates of free markets come from politically powerful religious groups.

2. *Rational self-interest* is the objective moral code. Objectivism rejects altruism (i.e. the greatest good is service to others) as an unhelpful and illogical human attribute. Individuals are required to pursue their own happiness, so long as it does not negatively affect anyone else's. This is compatible with negative freedom, one of Isaiah Berlin's two forms of freedom. It relates to a 'freedom from' approach that grants people a right to be free from interference by others, including, and in particular, government.

3. *Laissez-faire capitalism* is the objective social system. It is important to recognise that laissez-faire capitalism is referred to by its advocates as a social system, and not just an economic system. This is an important issue and one towards which critics of the approach feel unified in their opposition, although such opponents have differing views on how to respond. Some would argue for an overthrow of the capitalist ethic and practice, whilst others would retain a market-based framework, but define boundaries of relevance and ethical justification for markets. The latter is exemplified by writers such as Walzer (1983) and is discussed below.

DEFINITION

Laissez-faire means unrestricted. So laissez-faire capitalism refers to a preparedness to let markets 'sort themselves out', even during periods of disequilibrium and apparent malfunctioning. The belief is that a 'market' will self-correct in time (a natural law, or Darwinist view within economics). Self-correction rather than external intervention is deemed infinitely preferable in the long run for all concerned.

The attachment of modern-day libertarian-economists to a myopic focus upon competition can be criticised for ignoring two other significant elements of economic systems, which are:

- *Command* (the extent to which power, coercion and hierarchy affect economic relationships), and
- *Change* (the way that capitalism effects change and is itself affected by change).

These three central elements of capitalism – competition, command and change – have ethical and moral implications and it is argued here that they are interconnected, not subject to easy and simplistic separation. However, the classical-liberal perspective eschews these arguments and presents a schema in which the operations of the firm, both those within the firm and how it interacts with its external environment, are treated as if they are value neutral.

Within the simple competitive model of economic behaviour managers are expected to behave in ways that reflect what is known as economic rationality. This normative theory is open to challenge in terms of its descriptive rigour, hence the existence of alternative theories of the firm. Supporters of the neo-classical-economic perspective would accept that actual practice is likely to be variable around the preferred norm, but it is argued that economic rationality is the goal towards which organisations should strive. They argue that those organisations that get closest to the normative position will prosper, with competitors having to respond in a similar fashion, or wither on the economic vine.

The corporatist approach

The corporatist approach does not deny the primacy of competitive market forces, but an exclusive equity shareholder perspective is eschewed in favour of a broader-based set of perspectives in some of the organisation's decision making. These additional perspectives are those of employee representatives, debt financiers, and in some cases state interests. This broadening of the decision-making base is claimed, and appears to offer, a longer-term view to certain aspects of corporate decision making. For Crouch and Marquand (1993: 3):

> The system as a whole trades-off losses in the short-term efficiency on which the Anglo-American tradition focuses against gains in consensual adaptation and social peace. It owes its extraordinary success to its capacity to make that trade-off … In a high skilled – or would be high skilled – economy, consensual

> adaptation and social peace are public goods, for which it is worth paying a price in strict allocative efficiency.

The sphere of inclusion reflected in this approach goes beyond the exclusivity of the shareholder orientation of the classical-liberal perspective espoused by most Anglo-American corporations. Evidence suggests that the corporatist-type approach has avoided, or minimised, many of the worst effects of short-term economic 'adjustments' in world trade that have been experienced since about 1960. This is not to say that countries such as Germany, Sweden and Japan (examples of the corporatist perspective) can be immune from significant movements in world economic activity, but it is argued that significant economic lurches have been avoided in these countries, thus minimising significant rises in unemployment levels, with the attendant impacts upon social cohesion. The significant economic downturns experienced by a number of Asian economies in the late 1990s, including Japan, were associated more with structural factors within these economies than with inherent weaknesses in Japan's more corporatist approach to market coordination.

Whether the corporatist approach is preferred by some because it offers a greater likelihood of economic, and thus political, stability, with the greater apparent value placed upon the interests of individual citizens/employees merely an ancillary benefit, or whether the rationale for employing this approach is reversed (i.e. the ethics of the corporatist approach are argued to be the main reasons for its adoption), is not critical for our discussion. What is relevant is that both the 'classical-liberal-economic' and the 'corporatist' approaches can cite ethical justifications for their superiority as economic and social systems. The former can do so because of the primacy attaching to the notion of individual choice, the latter because of its attachment to social cohesion and the desire to avoid, or minimise, what might be deemed unnecessary social disruption and distress to individual lives during periods of economic correction or recession.

The pluralist perspectives

There are two main pluralist perspectives. The first (referred to as Type A pluralism) sees broad stakeholder interests being represented (as far as this is possible) by elected or appointed members of corporate boards. This is a development of the corporatist perspective, but with the stakeholder groups being drawn more widely. The corporatist approach is evident in the countries cited above on a reasonable scale, whereas the two pluralist perspectives currently exist as arguments and debates, rather than as practice. Companies such as The Body Shop are very much the exceptions that prove the rule.

In Type A pluralism stakeholder groups are required to do more than argue their particular, vested-interest, case. They are expected to be representative of societal interests. Clearly the extent to which the latter are adequately represented will depend upon the composition of the stakeholder groups. Thus, as compared with the classical-libertarian-economic perspective, where the unconscious forces of individual decisions are deemed to give expression to society's preferences, within

Type A pluralism societal preferences are given voice by the presence (or not) of stakeholder groups on company boards or committees.

The second pluralist perspective (referred to as Type B pluralism) does not dispute the possibility of stakeholder groups being physically represented within corporate decision-making processes, but this is neither a prerequisite, nor part of the basic arguments. This second variant of pluralism sees economic rationality being moderated by concerns for, and recognition of, wider social implications of corporate decisions, with these factors being weighed by individual decision makers. Type B perspectives can be presented as a continuum, with writers such as Casson (1991) at one pole, and Maclagan (1998), Maclagan and Snell (1992) and Snell (1993) at the other.

The perspective argued by writers such as Casson is that competition via market-based economies is the preferred economic system, but that reliance upon unadulterated economic rationality as the sole explanation of individual behaviour is both naïve and unhelpful. For the discipline of economics to retain relevance Casson argued that it must recognise behaviours that are explained by drives other than, or in addition to, economic rationality.

> These professional prejudices must be overcome if economics is to handle cultural factors successfully. They are the main reasons why, in spite of its technical advantages … economics has not contributed more to the analysis of social issues.
>
> (Casson, 1991: 21–2)

Classical-libertarian economics retains a view of human behaviour that sociologists would describe as 'under-socialised' (i.e. unrepresentative of the complexity and variability of actual human behaviour). Type B pluralism argues for a recognition of the realities of everyday market conditions, but also a more socialised set of assumptions of human behaviour. Whilst a market-based economy is seen as the foundation upon which organisational coordination takes place, structural issues and problems within markets are recognised, e.g. power imbalances between competitors; information asymmetry between producers and customers; and the capricious nature of (the owners of) capital. Greater responsibility, ethicality and humanity are required of corporate decision makers.

In a similar vein, but with less of Casson's implicit instrumentalism, Etzioni (1988) employed a moral justification for an overt recognition of broader perspectives beyond short-term profit motives. In the following quotation Etzioni used the term 'deontological'. This is an important word in any consideration of business ethics and it is considered in more depth in Chapter 3. However, we offer a brief definition of the term here to allow you to understand the argument that Etzioni was making.

DEFINITION

A **deontological** approach to moral behaviour is one that believes that moral reasoning and action should be guided by universal principles that hold irrespective of the context in which an ethical dilemma might exist.

> Instead of assuming that the economy is basically competitive, and hence that economic actors (mainly firms) are basically subject to 'the market' possessing no power over it (monopolies are regarded as exceptions and aberrations), the deontological 'I & We' paradigm evolved here assumes that power differences among the actors are congenital, are built into the structure, and deeply affect their relationships. We shall see that power differentials are gained both by applying economic power (the power that some actors have over others, directly, within the economy) and by exercising political power (the power that some actors have over others, indirectly, by guiding the government to intervene on their behalf within the economy). These fundamentally different assumptions make up what is referred to here as the I & We paradigm (one of the larger possible set of deontological paradigms). The term [I & We] highlights the assumption that individuals act within a social context, that this context is not reducible to individual acts, and most significantly, that the social context is not necessarily wholly imposed. Instead the social context is, to a significant extent, perceived as a legitimate and integral part of one's existence, a whole of which the individuals are constituent elements … The deontological paradigm evolved here assumes that people have at least some significant involvement in the community (neoclassicists would say 'surrender of sovereignty'), a sense of shared identity, and commitment to values, a sense that 'We are members of one another'.
>
> (Etzioni, 1988: 5)

Etzioni continued:

> The issues explored here range way beyond the technical, conceptual matters of what constitutes a workable theory of decision-making in economic and other matters. At issue is human nature: How wise are we, and what is the role of morality, emotions and social bonds in our personal and collective behaviour.
>
> (Etzioni, 1988: xii)

Progressing along the continuum, past Etzioni's position, one moves towards those who argue for Type B pluralism on the grounds that a broader ethic than that required by classical-liberal economics is desirable, even essential, on the grounds that society as a whole needs organisational decision makers who understand and can exercise moral judgment in complex situations (Maclagan, 1996, 1998; and Snell, 1993). These writers see management practice as essentially a moral practice, set in a complex and challenging arena (business organisations), for individual moral development.

Thus, our pluralist continuum moves from writers, such as Casson, who argued for theories of decision making to recognise actual human behaviour and instincts in order to make economic theorising more relevant and realistic, to the arguments of writers such Maclagan and Snell, who justify the inclusion of the moral dimensions within business decision making on the grounds of the ethical demands of society as a whole.

The critical perspective

The critical perspective is composed of many different theories about human and collective behaviour, including the politics of organisations (Simon, 1952, 1953