Why Business Ethics Matter

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Debates about international business ethics are as old as international business itself. Not so long ago, however, few international business people would even consider ethics as a subject for any form of lengthy discussion. Until the mid-1980s, the topic of business ethics was predominately a subject debated by academics. It had little impact on the reality of the international business world where the prevailing attitude was that «anything goes» and the desire to «close a deal» was paramount. Even up into the late 1990s, some governments (including Japan and Germany) recognized the implications of doing business in certain parts of the world, and actually allowed their businesses to write off bribe payments on their corporate income tax.

Every manager regardless of his or her geographic location, and every corporate board regardless of where it sits, has at some point faced a decision that challenges their ethical standards. The course of action taken often does not quite pass muster with even basic ethics standards. Consider the following scenarios:

• A South American manufacturing company trying to break into a new market is asked to «donate» to a charitable foundation run by the brother of a high government official in Asia.

• A European pharmaceutical company offers government health officials from developing countries lavish entertainment as an inducement to buy its drugs.

• A municipal government hoping to have its city become a venue for the Olympics arranges for the local companies to provide university scholarships for offspring of selection committee members.

• An American Internet company sells information gleaned about its customers' online habits without their knowledge.

In each case, the company's managers can reasonably argue that they are pursuing the interests of the firm, and, in many jurisdictions, they may not even be breaking the law. A decade ago the idea of simply not breaking the law may have been enough. Today, however, the global business playing field is changing. The pressure to act ethically — to act as a good corporate citizen of the world — is growing in both developed and developing nations.

Much of this push for ethics is consumer-driven. One-third of UK consumers claim to be seriously concerned about ethical issues when shopping, although only half of that number put their principles into action and buy (or boycott) products because of the manufacturer's reputation. A research firm commissioned by Britain's Co-operative Bank also found one-in-four consumers claim to have investigated a company's social responsibility at least once, and one-in-two shoppers say they have bought a product and recommended a supplier because of its «socially responsible» reputation. The report shows a heightened awareness of ethical issues among the UK public and a boom in the market for ethically correct products and services. The «ethical consumer» market, which encompasses a whole range of products from stock investments to soybeans, is worth an estimated 12 billion Euros per year. And it is growing annually.

According to a 1999 survey conducted by the UK-based Prince of Wales Business Leadership Forum and Environics International Limited, 40% of the 25,000 respondents in 23 countries had thought in the past year about punishing a specific company perceived as not being «socially responsible». Half of this 40% – representing one-in-five consumers worldwide — have avoided the product of a company or spoken out to others against a company perceived as shirking its supposed «corporate citizenship» role. Meanwhile, consumers were just as likely to «reward» companies perceived as socially responsible by purchasing their products.

Business leaders and CEOs read these numbers and realize the bar has been raised. Corporations of all sizes, but especially multinationals, are more attuned than ever before to the «bottom-line value» of being a good corporate citizen and playing by the rules. More and more individual business people are seeking to «do the right thing», though they are often prodded in the right direction by corporate ethics standards and local laws.

All these factors, along with the growth of large multinational companies, have transformed the concept of business ethics from an academic discipline into an emerging operating force. Along with corporate ethics, corruption and bribery in international business have surfaced as important issues in an increasingly interdependent world economy. No longer seen purely as «a cost of doing business», the increasingly accepted view of corruption and bribery is that they hinder competition, distort trade, harm consumers, burden taxpayers, and undermine public support for governments. As a result, more and more corporations see business ethics as a bottom-line issue and not an optional one of personal morality. The acceptance of ethics as contributing to corporate operating profits (or losses) means they are receiving unprecedented attention.

Behaving ethically and acting responsibly may just be the wave of the future, if only because the right-thing-to-do can also be the profitable-thing-to-do. Consider the following:

• A two-year study by The Performance Group, a consortium of seven international companies (Volvo, Unilever, Monsanto, Imperial Chemical Industries, Deutsche Bank, Electrolux and Gerling Insurance) concluded that improving environmental compliance and developing environmentally friendly products can enhance company earnings per share, increase profitability and also be important in winning contracts or investment approval in emerging markets.

• Recent research cited in the Business and Society Review showed that 300 large corporations found that companies which made a public commitment to rely on their ethics codes outperformed companies that did not do so by two to three times, as measured by market value added.

• A study by DePaul University in the United States found that companies with a defined corporate commitment to ethical principles do better financially (based on annual sales/revenues) than companies that did not.

The challenge for consumers and companies is that business has spread across borders faster than the development of a universally recognized framework for a global code of ethics and conduct. Technology has raised ethical issues that only a few years ago simply did not exist. Ethical debates now rage on issues that range from genetically modified food to human cloning to privacy on the Internet and controversial companies like ENRON and AHOLD make headlines for malfeasance allegations. Globalization also brings companies into more frequent contact with other countries and cultures that do business by different rules. These occurrences all raise a big question: Whose ethics are we talking about?

Corporations are only now beginning to learn that while expanding into profitable new markets, they must also begin to take into account the social agendas and cultures of these new markets. Currently no global standard of ethics and conduct as yet exists, although there are several suggested standards being promoted from the Paris-based International Chamber of Commerce, the United Nations, and the U.S. Department of Commerce. However, the world is seeing a convergence of sorts in what corporations and consumers from all cultures deem important. Although values and cultures do differ, there is universal acceptance of the notion that a good corporate reputation is a competitive advantage in global business. How that reputation is built is another matter entirely.

A Brief History of Business Ethics

We are living in an era when «Captains of Industry» have achieved celebrity status, gracing the covers of news and business magazines and appearing as larger than life icons meant to inspire us lesser mortals to success. GE's Jack Welch and Vivendi's Jean-Marie Messier are just two examples among many, and although these two could represent either good or bad models of management, no one can discount their fame. There are many business analysts who will argue that this celebrity status has actually proven to be a major distraction to many CEOs who are more concerned about their personal image than their company's bottom-line and long term performance.

Of course, it wasn't always this way and it still isn't in some societies. The contemptuous attitude towards today's «oligarchic» new capitalists in Russia is a case in point. In fact since the dawn of recorded history, the businessperson, the merchant, the trader, has pretty much been on the bottom rung of the social ladder. Doing business and being good were considered to be mutually exclusive activities.

Karl Marx, a failed stockbroker turned economist, wrote that greed is inherent in man, and he seems to have been on to something. If there is one constant in history, it is surely the fight against man's seemingly innate urge to take advantage of his fellow man. Beginning with the twenty-centuries-old Code of Hammurabi, human society has tried to codify some basic ethics in business. Hammurabi was the chief of Babylon (considered by many to be the world's first metropolis) and he headed a culture complete with an organized commercial system. The code regulates in remarkably clear terms the rules of social and business behavior. It would not be far fetched to call it the first corporate code of ethics and it certainly «inspired» the merchant-trader to follow the rules. Bad business practices were harshly punished with an eye-for-an-eye mentality. For example, if a contractor built a house badly and it collapsed killing the house owner, then the builder was to be killed in retaliation. If the house owner's son were killed, then the builder's son was slain. Clearly, this is an early indication of the problems of defining ethical behavior and promoting its use.

The ancient Greeks started the trend of stereotyping businesspeople with less than honest motives and intent. Hermes was the Greek god of Commerce and the Marketplace, and thus the official patron of traders and merchants. However, he was also considered the official patron of thieves. His distinguishing qualities were cunning, ingenuity, knowledge and creativity. These qualities are all valued qualities in the world of business and, unfortunately, in criminal activity. He was the fastest of the gods (Hermes became the Roman god Mercury) and one of his main tasks was leading the souls of the dead to the Underworld. He spun lies and illusions that turned those who came into contact with him into some of the earliest victims of fraud. The ancient Greek priests eager to maintain their own power, used Hermes to lump the virtues of successful business people and successful con men together. It has been a tag that has proven very hard to shake.

Since their inception, the world's great religions have been preaching the need for ethics in business. Holy books are littered with warnings about wealth accumulation without taking on the accompanying social responsibility. All societies, at some point, have been suspect of successful business practitioners, often equating business success and making piles of money with eternal damnation. By way of example, the Bible's Book of Exodus in warning against «greasing the wheels» with cash states «Thou shall take no bribe, for a bribe blinds the officials and subverts the cause of those who are in the right.» Similarly, in Ecclesiastes it warns against too much business success: «Sweet is the sleep of the laborer whether he eats little or much; but the overabundance of the rich will not let the rich sleep.»

The Islamic holy book, the Koran, singles out the unethical businessperson for a one-way trip to perdition. «Woe to every slanderer, defamer who amasses wealth and considers it a provision against mishap. He thinks that his wealth will make him immortal. Nay, he shall most certainly be hurled into the crushing disaster.» And finally, the Jewish Talmud weighs in with a very practical approach to setting your business priorities. The Talmud discusses what types of questions God asks of people after their deaths. The very first question, so says the Talmud, is «Did you conduct your business affairs with honesty and integrity?»

Business Ethics in Literature and Culture

William Shakespeare made The Merchant of Venice's Shylock a despicable character who became an enduring symbol of that less-than-respectable profession of loan sharking. It is Shylock who greedily demands «a pound of flesh» in payment for a debt. It really wasn't just a once off for Mr. Shakespeare as he generally held merchants and those in commerce in low esteem, often portraying them as plotting, conniving and generally unethical lowlifes. It really wasn't anything personal, but rather a reflection of the prevailing attitudes of society at that time. Fellow British author Charles Dickens chronicled the horrors of sweatshops, child labor, debtors' prisons, along with the practices of swindlers and misers in such epics as a Tale of Two Cities and The Christmas Carol. Lastly, the noted French author Honore de Balzac reflected the mood of his times (and in many cases modern times) with his often-repeated quote «Behind every great fortune... is a crime».

In cultures as diverse as Japan and England, merchants and traders were looked down upon by nobility but were tolerated nonetheless as necessary evils. Indeed, the English class system of recent centuries judged individuals not on their wealth but rather on how they managed to get their money. The retail trade was the lowest of the low in this system. Those with «new money», that is money made in commerce rather than through family inheritance, had little clout or respect. This disdain and distrust of commerce had real effects on the relative development of some nations. China, a country were the merchant class was near the bottom of the social scale for millennia, remained a feudal state well into the 20th century, partly because of its dim view of businesspeople.

Commerce Comes to the Fore

In the West, the plight of those with commercial ambitions began to improve somewhat during the European Renaissance. Merchants were no longer excluded from political power and, in fact, aspiring to wealth through commerce began to be considered a socially acceptable ambition in many parts of Europe. It was partly this newfound respectability that opened the door to the industrial revolution centuries later and the accumulation of large fortunes by individuals engaged in commerce.

Despite some grudging admiration of wealth accumulation, the industrialists in the United States had managed by the mid-19th century to undo all the newfound goodwill. They were often deservedly referred to as «robber barons» for ruthlessly running their railroads or steel mills and manipulating financial markets with little regard for employees, consumers or the public good. Monopoly tactics, predatory pricing, near slave labor conditions were the basic practices of big business. It is no wonder that out of this dismal period of business behavior sprang the beginnings of trade unionism and the search for a more seemly manner of doing business. Business was now seen as part of the social fiber of a culture and not just a means of providing sustenance.

Business Ethics and Society

Once it was decided that a sense of morality must be put in place, that decision demanded clearer ideas of what constituted ethical behavior. Business ethics are based on broad principles of integrity and fairness tending to focus on such as product quality, customer satisfaction, employee wages and benefits, local community, and environmental responsibility issues that a company can actually influence. Business ethics defines how a company integrates its core values, such as honesty, trust, respect, and fairness, into its policies, practices, and decision-making processes. Business ethics, of course, also involves a company's compliance with legal standards and adherence to internal rules and regulations. As recently as a decade ago, business ethics consisted primarily of compliance-based, law-driven codes and training that outlined in detail what employees could or could not do with regard to areas such as conflict of interest or improper use of company assets.

Today, however, a growing number of companies are attempting to design values-based, globally consistent programs that give employees a level of ethical understanding that allows them to make appropriate decisions, even when faced with new challenges. At the same time, the scope of business ethics has expanded to encompass a company's actions with regard to how it treats its employees and the marketplace. It also addresses the nature and quality of the relationships a firm wishes to have with shareholders, customers, business partners, suppliers, the community, the environment, and even future generations.

The Concept of Corporate Responsibility

All of the current angst over ethics codes and corporate social responsibility is being played out against a backdrop of debate over how far companies can and should go in meeting social expectations or if they should even consider it at all. The big question that is still to be answered is: Isn't the business of business really just business? Thirty years ago Milton Friedman, doyen of market economics who even advocated private ownership of roads, floated the idea that «there is one and only one social responsibility of business — to use its resources and engage in activities designed to increase its profits.»

Such a statement might seem a mere statement of fact for someone like Mr. Friedman but these words send chills down the spines of anti-globalization activists. For both sides of this issue, it should be noted that the tradeoff is clear: if society wants companies to put social agendas ahead of the pursuit of shareholder value, then governments should regulate business accordingly. But society must be willing to accept the economic fallout – good or bad.

The more common view today is that societies can and do have the right to expect business to at least function ethically. After all, common sense and marketplace rules dictate that it's not a simple question of ethics <u>or</u> business. No company can thrive, or even survive, if it does not carry out sound business practices and make a profit. But while doing so it must keep in mind that people are reluctant to do business with a company that cheats its customers and suppliers, ruins the environment or fails to build trust with its employees and investors.

People in every country in the world make an agreement with business to carry out the necessary work to provide goods and services to society, but that same society often makes concessions (e.g., tax moratoriums, infrastructure development) to a firm as part of the deal. In return, society has the right to expect that firms will enhance the general interests of consumers and employees.

With large corporate mergers and the development of new markets around the world, major corporations often now wield more economic and political power than many of the governments under which they operate. In response, public pressure has increased for businesses to take on more social responsibility and operate according to higher levels of ethics. Firms in developed nations, for instance, now promote (and are generally required by law to observe) nondiscriminatory policies for the hiring, treatment, and pay of all employees. The firms then take these policies with them when they expand into the emerging markets, which in turn positively affects the developing economy. Some companies are also now more aware of the economic and social benefits of being active in local communities by sponsoring events and encouraging employees to serve on civic committees.

Businesses will continue to adjust their operations according to the competing goals of earning profits and responding to public pressures for them to become beneficial social institutions. However, even those who think companies do have wider responsibilities cannot always agree on the most efficient method to achieve them. Though a company's number one priority may be to optimize the long-term interests of shareholders, it should also attempt to respond to the ever-changing ethical goals that the public expects and demands.

Sustainable Development

Over the last two decades, the concept of sustainable development has been popularized even though the concept can vary dramatically from culture to culture. Environmental issues originally dominated the concept, though today it is being interpreted by business to mean much more than just protecting nature. It is about people, profits, and ethics as well as having a better economic and social future for all.

The United Nations defines sustainable development as «providing for the needs of the present generation while not compromising the ability of future generations to meet theirs.» For some this definition was too negative and too limiting. It seemed to encourage maintaining a sort of status quo, without calling for improving the lot of the world's population. It called for a world with «less» rather than a world with «more». The potential might be lost for new technologies and new products, which are all potentially profitable to businesses, but could also improve life on earth for rich and poor alike.

Under pressure from consumers, governments and non-governmental organizations, businesses began to move away from the narrowly focused path of environmental awareness in the 1990s to the more broad-based notion of sustainable development. Today sustainable development is less about environmental protection and more about social justice and equitable economic growth. The more acceptable definition utilized these days is also more positive: «Sustainable development is about ensuring a better quality of life for everyone, now and for generations to come.»

Indeed, the notion of improving the quality of life has been the breakthrough concept of sustainable development. Businesses have started to see how their technologies, processes and innovations could make a real difference in solving environmental and social problems as well as making life better, healthier, safer and easier for everyone. This, above all else, is why business ethics matter.

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