

GENUINE BUSINESS ETHICS

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Business ethics and corporate social responsibility are often seen as instruments for improving the functioning of a corporation, to add value to business like other 'tools.' The Inter-faculty Group in Business Ethics of the Community of European Management Schools (CEMS) has produced a new book, *Ethics in the Economy: Handbook of Business Ethics*,* which presents a rather different, non-instrumental view of ethics in business.

Ethics is fundamental to and relevant at all levels of economic activity, from the individual and the organizational to the societal and the global. Yet there is a paradox in the proposition that higher standards of behavior in today's world will automatically lead to higher profits and better performance. If the aim of top executives is *merely* to use ethics to achieve greater efficiency their efforts will ultimately fail. Superficially motivated business ethics initiatives—rightly called 'window dressing'—often prove counter-productive. They are perceived as cheating by the stakeholders who will react accordingly. Sometimes no ethics at all is better than opportunistic actions.

The paradox of ethics management has already been acknowledged by ethicists and economists. "By creating new regulations to temper opportunistic behavior within and between organizations, we may temper the symptoms but often reinforce the underlying roots of opportunism," wrote Luk Bouckaert of the Catholic University of Leuven in Belgium.¹ He continues, "We introduce economic incentives in terms of benefits, premiums or tax relief for those who respect the new regulations but at the same time, by doing this we substitute moral feelings for economic calculations. (...) Preaching moral concepts such as trust, responsibility or democracy on the basis of calculative self-interest or as conditions of systemic functionality is not wrong but very ambiguous. Hence, it opens the door for suspicion and distrust because calculations and systemic conditions can easily change or be manipulated. When the fox preaches, guard your geese."

Bruno Frey of the University of Zurich discovered the 'crowding-out effect,' a closely related phenomenon. Empirical and experimental evidence shows that external motivation,

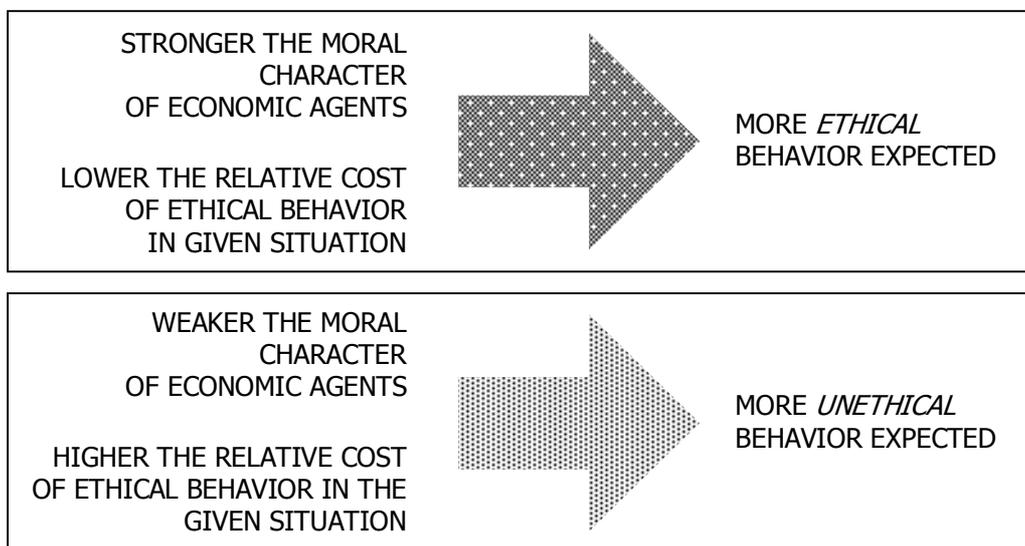
* Peter Lang Publishing, Oxford, 2002, 2004.

including monetary incentives, undermine intrinsic motivation of people and thus decrease the quality of service or output.²

The favored image of man in business and economics, the *Homo Oeconomicus* (Moral Economic Man) has its shortcomings. This model states that agents are rational, self-interest-maximizing beings. But overwhelming empirical evidence suggests that people do not just care about their own material payoffs but also consider the interests of others. They are willing to sacrifice their own material well-being to help those who are kind to them and to punish those who are unkind to them. They take into account the well-being of strangers whose interests are at stake. They are also interested in their reputations and care about their self-conceptions.

Two major factors explain the ethical quality of economic behavior: the moral character of the agents and the relative cost of ethical behavior. In this view, economic agents are essentially moral beings, but which face of the Moral Economic Man becomes visible at any one time depends on the context. (See Figure)

Figure: Determinants of the Ethical Quality of Economic Behavior



Corporate transgression is so common in today's business world. Some corporations are involved in organizational practices, or in creating products, which are violating laws or moral rules, and this takes its toll on the public. The social cognitive theory of moral agency developed by Albert Bandura of Stanford University gives a conceptual framework for analyzing how managers adopt socially injurious corporate practices. There are many 'disengagement mechanisms' employed in corporate transgression. They include moral

justification, euphemistic labeling, advantageous comparison, displacement of responsibility, diffusion of responsibility, disregarding or distorting the consequences, dehumanization and attribution of blame.

Business ethics can provide strategies to counteract organizational use of moral disengagement strategies. One approach is to monitor and publicize corporate practices that produce detrimental effect on humans. Another approach is to increase the transparency of the discourse through which corporate policies and practices are born. Instituting clear lines of accountability inhibits moral disengagement. Exposing sanitized language that masks reprehensible practices is another corrective. The affected parties need to be confronted and their concerns publicized and addressed.

In the light of the huge business scandals and the massive opposition to unregulated globalization, the moral foundation of capitalism should be reconsidered. Modern capitalism is disembedded from the social and cultural norms of society. Market fundamentalism—the belief that all kinds of values can be reduced to market values, and that the free market is the only efficient mechanism for the rational allocation of resources—should be abandoned. We should find other sources of values to develop alternative views on economic activities. Business should contribute to conserving and restoring the ecology of the natural world and should contribute to the enhancement of the capabilities and self-development of people.

The chance to improve the ethical quality of our economic activities can only be taken if our motivation is *genuinely* ethical; that is, only if we want to realize ethical conduct for its own sake. Ethics is like love: only those who love their partners in and for themselves will enjoy all the blessings of a loving relationship.

References

¹ Bouckaert, Luk: "Humanity in Business" paper presented at the *European Ethics Summit* in Brussels, August 29-30, 2002, p. 10.

² Frey, Bruno: *Not Just for the Money*, 1997, Edward Elgar, Cheltenham, UK– Northampton, Massachusetts, USA.

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