

## Chapter 1

# New Agenda for Business Ethics

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This handbook does not intend to be just another book in the field of business ethics. It is *against* the mainstream conception that ethics is only an *instrument* for improving business functioning. The authors of the book do not believe that ethics is something that should be introduced as a value added in business. We look at ethics as being fundamental to economic activities. For us ethics is a relevant aspect at all levels of economic activity from individual and organizational to societal and global.

In world the ethicality of economic actions is often highly questionable and in many respects unacceptable. The ethicality of the economy should be considerably improved but there is a paradox here. If we want to develop the ethicality of our economic affairs only as a means to achieving higher efficiency, in the last result we will fail. We have a chance to improve the general quality of our economic activities only if our motivation is *genuinely ethical*; that is, only if we want to realize ethical conduct for its own sake.

The approach advanced in this book is *contextual* and *agent-centered*. In our view economic actions are jointly determined by the agents and the context in which they are functioning. Agents and context evolve together, so if we want to change the ethicality of economic actions, we should target both the ethical make-up of the agents and the rules and regularities of the context in which they play.

This introductory chapter aims to present the most important propositions that the authors developed throughout the book. The reader should realize that the propositions listed below form an integrated whole and ultimately provide a new agenda for academic research, corporate action and public policy, with the aim of improving *ethics* in the *new economic reality* of the 21st century.

(1) Business ethics is more than “applied ethics.” Mainstream economics represents a normative “ideal theory” of rational action and cooperation among people. The primary task of an “integrative” business ethics is to reflect on the form of economic reasoning – it is the critique of economic reason. The history of economic thought reveals the “emancipation” of economic rationality from moral philosophy, a process that mirrors the historical process of the “great transformation” described by Karl Polanyi, through which the economy has become disembedded from its social, environmental, and cultural context. Today, the problematic consequences of the disembedded and unencumbered economic rationality represent a growing, real-life experience. In this situation, business ethics may fill the gap left open since the classical political economy was reduced to “pure” economics.

(2) The task of business ethics is to ask for a new ethical foundation for economic reason itself. Business ethics may provide a powerful critique of “economism” including economic determinism (which argues for the “force of circumstances” against ethical claims) and economic reductionism (which argues that the “morality of the market” is a sufficient guarantor of ethical reason). Rethinking basic ethical aspects of economic reason includes questioning the meaning of economic “rationalization” with regard to the good human life and criticizing the politico-economic order with regard to the development of a just and well-ordered society of free and equal citizens.

(3) The Homo Oeconomicus model states that agents are rational, self-interest-maximizing beings. 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. Economic behavior is co-determined by utility calculations and moral considerations. Two major factors can explain the ethicality of economic behavior, namely the moral character of the agents and the relative cost of ethical behavior. Economic agents are essentially moral beings, but it depends on the context as to which face of the Moral Economic Man becomes effective.

(4) The shareholder paradigm is no longer a suitable concept in the modern stage of market capitalism. The traditional theory of the firm is too restrictive to incorporate ethical values into the financial framework. In the property rights model, it is the shareholder that holds the residual risk and therefore the residual profit. The company is considered a set of direct investment projects that converts inputs into outputs. From this materialistic viewpoint, a company is not a system of cooperating persons but a contracting institution that produces cash flow. From this perspective no social responsibility is involved. This approach is justified by selecting the shareholders as the optimal stakeholders in order to reduce the agency cost. This line of argument denies any explicit relationship between social cohesion and operational efficiency.

(5) In the “ethical finance” approach, the neoclassical paradigm is replaced by a broader view. In addition to the necessity of competition and profitability, it includes care for the environment, the social and physical health of employees, and a moral responsibility for the risk run by creditors and other stakeholders. Unbridled competition encourages operational efficiency, but at the same time it is too limited to serve as a balanced allocation mechanism. Sustainable behavior often requires an increase in governance costs (e.g., due to the virtue of prudence) and therefore probably higher agency costs. On the other hand, in a safer and more stable environment, contracting costs may fall and create additional wealth for society overall.

(6) The relationship between business and society and the responsibilities of business towards society have been discussed under the umbrella terms “corporate social responsibility” (CSR) and “corporate citizenship” (CC). Claims that analyze and emphasize the specific role of private corporations as “citizens” have recently gained increasing momentum. The citizenship role of corporations can be perceived as an ideal of the integral role of business in society that enables responsible business conduct.

(7) Both the liberal and the republican traditions provide an understanding of the nature of citizenship. While in the liberal tradition the good citizen respects the regulatory framework and protects his chartered rights against third parties, other citizens, or the state, the good citizen in the republican tradition takes a more proactive stance and becomes a political actor. While liberalism emphasizes individual rights, republicanism emphasizes duties in and towards society.

The corporate “citoyen” reflects the republican tradition, acting as an impartial citizen among citizens who is not torn between his economic interests and civic duties. Rather, he combines them in his *modus operandi*. From this republican perspective, corporate citizenship goes beyond corporate philanthropy and implies responsibility for a company’s core business activities along its entire supply chain.

(8) Organizational ethics refers to the set of values that identifies an organization either as it is perceived by those working in the organization or by those who have dealings with the organization. Organizational ethics provides organizations with opportunities for learning and innovation. It is more than a process of awareness that allows organizations to reflect on themselves and renew their identities – it is a project. We can consider organizational citizenship as a new public manifestation of an advanced and reflective organizational ethics. Organizational citizenship implies a broader vision of organizations as actors operating in a social context, and it highlights the role of organizations as social contributors and innovators.

(9) There is a close connection between responsibility and ethicality. Personal responsibility has a crucial role to play in promoting ethical action in business organizations. From an action-oriented perspective the importance of deep emotions like empathy and a sense of justice should be emphasized. Personal responsibility can be contrasted to role-mediated behavior and common morality. In many cases the personally responsible action involves conflicting loyalties in organizations. “Exit,” “voice,” and “loyalty” described by Hirschman represent alternative strategies for personally responsible action in organizational life.

(10) Despite the universal agreement on gender equality, women are still in a disadvantageous position in contemporary society. The gender gap between men and women can be seen across many fields of life including business. Mainstream economics is male-biased as it presupposes an androcentric conception of the human person. With its exclusive focus on productivity today’s businesses tend to undervalue female characteristics such as care and compassion. However, they like to use women as sex objects in marketing and advertising.

(11) Based on the moral experience of women, Carol Gilligan describes feminist ethics as an ethics of care. For women the self is constructed through relationships, and their typical problem-solving strategy is communication. Insights from feminist ethics induce a new model of corporate governance where the key issue is to maintain and manage the firm's relationships in a mutually satisfying way. The post-industrial economy is more congenial to women than to men. Today's companies require a more-feminine management style. Gender equality and feminist ethics are not only important for their own sake – they increase the performance of businesses and economies while contributing to the quality of life for men and women alike.

(12) To overcome anarchy in the international economic system some global governance is needed. This means developing efficient international institutions, utilizing the pressure of global civil society, and reinforcing the self-regulation of business. Multinational companies have the duty of cooperating in governance systems. They also have the duty of reconciling universalism and cultural relativism in their daily activities; i.e., of applying universally valid ethical principles and respecting authentic local moral norms. Multinationals must be guided by their enhanced responsibility both at home and abroad.

(13) Globalizing efforts are important in overcoming international anarchy and protecting global commons; however, globalization in its present form is not sustainable. Globalizing tendencies have long been accompanied by political, cultural, and religious fragmentation. And the functioning of the globalized economy contradicts the goal of sustainable development, because it leads to ecological homogenization, causes the overuse of resources, and renders impossible the application of the precautionary principle. Some form of localization of the economy is certainly needed. The challenge is to find a way towards more global governance with less economic globalization.

(14) An ethical company has to pursue the overall objective of sustainability. At the corporate level, sustainability means the capacity of an organization to continue its activities over time, taking into consideration their impact on the natural, social, and human capitals. Sustainable development is a fundamental goal that requires dealing with the different stakeholder groups in

mutually reinforcing ways. In order to pursue sustainability, companies have to adopt advanced and innovative policies and tools.

(15) A tragic fallacy in the Western world is the belief that higher income leads to greater happiness. Empirical evidence shows that it's not money but people which make humans happy. The more-the-better strategy is a destructive track. Happiness is activity based and strongly related to self-realization and other-orientation. The Buddhist Kingdom of Bhutan demonstrates a comprehensive approach to human well-being by employing the measure of Gross National Happiness. In contrast Norway is a rich country which faces the problems of a welfare disease called "affluenza."

(16) The GDP-based welfare approach is a materialistic, economic description of human wellness. There is a need to complement this approach with "well-being" as a holistic, multidimensional description of human wellness. Happiness research and positive psychology may contribute to a development of more fruitful measurements. Deep ecology assumes that self-realization for humans cannot be obtained unless they take into consideration the self-realization of other sentient beings.

(17) The moral foundation of capitalism should be reconsidered. Modern capitalism is disembedded from the social and cultural norms of society. The 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 which can provide a rational allocation of resources – should be abandoned. We should find substantive value-backgrounds to develop alternative views on economic activities. For example, the economic teachings of world religions have a great relevance to the renewal of economizing. Among other world religions Judaism, Catholicism, Buddhism, and Taoism proclaim life-serving modes of economizing which can ensure the livelihood of human communities and the permanence of natural ecosystems.

(18) Economic activities should pass the test of ecology, future generations, and society to get legitimacy in today's society. This implies that: (i) economic activities should not harm nature or allow others to come to harm; (ii) economic activities must respect the freedom of future

generations; and (iii) economic activities must serve the well-being of society. Ecology, respect for future generations, and serving the well-being of society, call for a radical transformation of business. The future of capitalism is highly dependent on its ability to adapt to the new reality of the 21st century.