

Laszlo Zsolnai
Business Ethics Center
Budapest University of Economic Sciences
1053 Budapest, Veres Palne 36.
Phone/Fax: 36-1 318 3037
email: laszlo_zsolnai@interware.hu

Transatlantic Business Ethics

The Business Ethics Center of the Budapest University of Economic Sciences organized a *Transatlantic Business Ethics Summit* in September 15-17, 2000 in Budapest, Hungary. The Summit was sponsored by the *Community of European Management Schools* (CEMS) and *Procter & Gamble*.

The main function of the Summit was to provide a forum for leading *American* and *European* scholars to explore the *background theories* and *value bases* of business ethics in the perspective of the 21st century. The participants reflected on the *state of the art* of business ethics as it has been practiced in the USA and Europe, however, the *future* of business ethics, as a discipline was the main focus of the Summit. Since business ethics is closely related to business and capitalism, some considerations of the 21st century economic, political, and social reality were presented too.

Background Theories

John R. Boatright from *Loyola University Chicago* stated that although neoclassical economics contributes little to the study of business ethics, a new movement, called the New Institutional Economics, offers an economic analysis of organizations that has important ethical application. This movement analyses organizations as the result of

contracting among parties under certain constraints, including various costs and cognitive limitations. The New Institutional Economics has been applied normatively primarily to corporate law, in particular to the justification of shareholder control of corporations. However, this approach also provides a basis for understanding the relation of other constituencies or stakeholder groups to business organizations.

Peter Koslowski, the Director of the *Hannover Institute for Philosophy* proposed to interpret business ethics as "ethical economy". According to Koslowski ethical economy is the normative and analytical theory of the ethos and the conscious moral norms of the economy and of the firms operating in it.

Ethical economy as the theory of the ethical rules of the market - Koslowski argues - is located between economic theory and the theory of political economy that analyses the political framework of the market and the legal and governmental presuppositions of market exchange. Ethical economy and political economy complement the pure positive theory of the market economy by analysing the ethical and political framework of the economy. It is the role of ethical norms of a moral and a cultural character in the economy to regulate the market exchange and to prevent market failure, which is caused by unethical practices.

Ethical economy as business ethics shows that the possible correctives for market failure are not to be looked for in political intervention and political allocation and coordination but in the ethical norms that regulate situations of prisoners' dilemma and the like. This role of ethical norms as an alternative to political intervention is important since the compensation of market failure by political intervention is always in danger to lead to the repetition of market failure in government or state failure. Ethical coordination is a third alternative and a means against market failure as well as state failure.

Patricia Werhane from the *Darden Business School, University of Virginia* emphasized the importance of mental models in business ethics. She stated that one of the most serious challenges facing business ethics today has to do with the role of mental models

in the social construction of ethical theories, in ethical issues and dilemmas, and in the ways business ethicists teach and analyse cases. Using the example of the film, *Rashomon*, as a jumping off place, she argued that lack of awareness of the ubiquitous phenomenon of mental models is detrimental to analysis and moral judgment both in the classroom and in business.

International Business Ethics

Norman Bowie of the *University of Minnesota* investigated the creation the universal norms of international business. The most perplexing philosophical issue in international business ethics - Bowie stated - revolves around the question, "Should one do in Rome as the Romans do?" An affirmative response to that question seems to endorse ethical relativism and most philosophers are reluctant to go that route. On the other hand, philosophers would also admit that cultural circumstances often do matter, and that what is appropriate moral behaviour in one circumstance may not be appropriate moral behaviour in other circumstances. Thus philosophers writing in business ethics have tried to avoid ethical relativism on the one hand and a kind of ethical absolutism in which there are right answers to moral issues independent of the culture on the other hand.

Inspired by the contractualism of *John Rawls* and the theoretical work of the group of political theorists known as deliberative democracy advocates, Bowie argued that the universal norms of international business are constructed rather than discovered and that this approach is indeed alive and well in the practice of international business ethics and international diplomacy.

George G. Brenkert of *Georgetown University* emphasized that theories of business ethics generated by American business ethicists have been characterized, in general, by their appeal to universal, if not absolute, moral standards. Such standards are held to be applicable not only to business activities undertaken within the confines of the United States, but also throughout the world. In contrast, ethical relativism has long been

viewed as “a menace,” even a “demon”, which American business ethicists have sought to extirpate.

Brenkert maintained that an international business ethics must face these basic issues but do so in a way that recognizes significant limits to defenses of current universal business ethics. His argument draws on the work of many others who have portrayed the conceptual and normative embeddedness of moralities within cultural and conceptual structures. Accordingly, there may be significant cultural variations in the interpretation and understanding of various human relations, what it is to be a person, the relation of people to their environment, as well as the relation of moral considerations to these matters. This contextualization of moral values, principles, etc. leads us to consider the limitations they face not only within similar western societies but also within other non-western societies. Business ethics cannot so easily speak of universal rules regarding property, truth-telling, contracts, etc. Viewed more broadly, we must seek such ethics as bound up with issues of the competition, growth and consumption, which is significantly altering this planet. Brenkert concluded that there are significant theoretical and practical implications of taking yet another look at the nature of business ethics in an international setting.

Changing Business Ethics

Jane Collier of the *The Judge Institute, University of Cambridge* offered a reflection on the changing meta-context of the business ethics project, and highlighted the resulting implications and challenges to business ethics in the twenty-first century.

Collier suggested that it is time to clean the windows of ivory towers of business ethicists and survey the planetary landscape, the political, economic, and social and environmental context of global business. She argued that our expectations as to what we will see might not be matched by the reality. For instance, we may well expect to find what we may term the landscape of modernity: methodological nationalism with its patchwork quilt of

nation states, 'society' as coincident with national boundaries within which people forge their identity as collective and their self-image as progressive and evolutionary, ruled in political terms by elected governments which act as guardians of a national and social well-being achieved by regulation, statism and welfarism. In this picture of what Beck calls 'the first age of modernity' the 'global' is imply perceived as something 'added-on'.

In the light of the 'cosmopolitan project' - Collier continued - the division of function between business and politics changes. In transnational society there is no world state, and therefore no global political or regulatory entity. There is a vast new space, a vacuum of the moral and the subpolitical. Business becomes the location and the arm of transnational politics. Corporations determine the global division of labour and income through investment decisions; create the shape of inequality, justice, freedom and democracy worldwide. They also outmaneuver tax systems, evade regulatory systems, hold countries seeking investment to ransom, and externalise the costs of employment.

How then are we to define corporate social responsibility in this context? - asked Collier. In the first instance there is a shift in the locus of responsibility from a defensive stance of 'not doing harm' to a positive commitment to 'do good'. Corporations are not simply exploiters and polluters; they are also the carriers of the resources and the knowledge necessary to achieve the development necessary for world society to survive on a global level. Corporate social responsibility thus means making a commitment to sustainable development and implementing that commitment on a number of fronts and in a number of ways.

Thomas W. Dunfee from *The Wharton School, University of Pennsylvania* emphasized that individuals may act on their moral preferences in many different ways, including modifying their own behaviour, seeking to influence the behaviour of others, invoking public sector interventions or trying to change the actions of organizations. Individuals often act on the basis of personal values, for example by refusing to work for organizations whose values they dislike or lying in real estate negotiations. Individuals may also try to influence the behaviour and preferences of others through actions.

A recent strategy for furthering one's moral preferences - Dunfee continued - is to try to alter the behaviour of strategies of target organizations. Students objecting to labour practices in developing countries may refuse to buy "sweatshop" products containing their university logo. Animal lovers may buy cosmetics, even more expensive ones, when assured that the products have not been tested on animals. Investors may eschew the stocks of certain companies, e.g. tobacco or gambling stocks, at least in a portion of their portfolios. Or they may buy mutual funds that employ positive screens as a means of supporting companies that reflect good values.

Organizations recognize and respond to morally-based behaviours of individuals. They may provide a direct means by which individuals can act on their desires, as for example, when mutual fund companies develop and market socially screened funds they hope will appeal to certain individuals. Others directly market to the moral expressions of their actual and potential customers, as happens when a firm such as Ukrops (a Richmond, VA, supermarket chain) announces that it will give a certain percentage of customer purchases to a worthy cause.

A major foundation for a market morality based analysis - concluded Dunfee - is the liberty of individuals to hold moral desires and to seek to implement them in their daily decision making. For some people, implementing their moral desires is the most significant element of their lives. Each person should have a maximal opportunity to act, as they prefer in this domain.

Individuals acting on the basis of their moral desires may implement them through a wide variety of economic, political and social channels. They may vote consistently with their desires, lobby legislatures, boycott products, support social issue shareholder resolutions, buy or sell their stock in certain firms, try to persuade friends and strangers to act in a similar way and so on. Individuals also face many constraints in exercising their moral desires, particularly in the form of restrictive public policy and laws. Because there are many competing moral desires in political and social markets, this is to be expected.

Those who find themselves blocked in one channel (e.g. legal interpretations of corporate governance standards, restrictions limiting social issue shareholder resolutions) may turn to other channels (lobbying for legislation, boycotts) as a means of giving effect to their preferences. Dunfee concluded that ultimately, the obligation of government is to provide an environment in which morality may be fully expressed within markets.

Laszlo Zsolnai, Director of the *Business Ethics Center*, the *Budapest University of Economic Sciences & Public Administration* and Chairman of the *Interfaculty Group in Business Ethics, Community of European Management Schools* (CEMS) called for a transformation of business ethics in his presentation.

Zsolnai emphasized that in the context of the contemporary global economy a *new form of justification* of profit making is needed. Business ethics may play an important role in providing criteria for *acceptable* business practices. He stated that contemporary business ethics might be criticized as being an *apologetic* discipline that wants to improve the ethicality of mainstream business activities only in the sense of “*doing well*”. For this reason business ethics is mostly *shallow*, that is, mostly avoids deeper questioning of economic systems and business practices.

Zsolnai argued for a *deeper business ethics*, which is a more *critical* discipline asking systemic questions and challenging the basic assumptions of mainstream business activities in the sense of “*doing good*”. Zsolnai proposed to accept two distinct but interrelated principles that business organizations should realize in order to be legitimate in the 21st century reality. (i) Business should be *conserving* that is, should contribute to the conservation and restoration of the ecology of the natural world. (ii) Business should be *enabling*, that is, should contribute to the enhancement of the capabilities and self-development of people.

Conserving and enabling call for *radical transformation* and *re-positioning* of business. Fortunately - as Zsolnai pointed out - there are highly innovative and successful companies that try to go into this direction. If business ethics has the courage for *deep*

questioning it might be useful in serving the ecological and human transformation and re-positioning of business - concluded Zsolnai.

Business Ethics as a Discipline

Christopher J. Cowton from the *Huddersfield University Business School* reflected on the issue of how business ethics scholars come to choose what to write about. He stated that Janus-like, business ethics scholars face two ways; towards the academy of which they are members, and towards the world of business and management practice – regarding which their position may be rather more ambivalent. Influences upon the scholarly agenda can come from both.

It might be argued - Cowton continued - that the business ethics literature is insufficiently influenced by what academic colleagues in ‘mainstream’ areas of business and management studies are researching and writing about. (And even their current concerns might be far removed from some of the most interesting issues in contemporary organizational practice.) Where, for example, can be found in the business ethics literature sustained debates about the ethics of business process re-engineering, strategic competencies, the balanced scorecard, the virtual organization, knowledge management or e-commerce? Perhaps if business ethics agenda were more directly influenced by general business and management scholarship we would be more successful in integrating ethics into business and management teaching and would also increase the probability of our being able to publish in ‘their’ refereed journals, thus enhancing the academic respectability of business ethics within the business school - concluded Cowton.

Josep Lozano from *ESADE Barcelona* emphasized that one of the functions of business ethics is helping to view business firms and their actions within the context of society and not just from the standpoint of the market. Indeed, ethics should be an inherent part of all business actions and not a value-added feature.

Lozano pointed out that business ethics must help to redefine our understanding of business “success”. It must therefore encourage and make proposals that help to clarify how companies ought to be assessed and what their accountability should be. Finding an answer to the question of what makes a “good” company and how we can recognize it is a major task of developing business ethics and enhancing its credibility.

Lozano argued that business ethics must be understood as a learning process. Indeed, business ethics must foster axiological competence so that people and organizations will be able to move in changing social and cultural contexts without a set of fixed and stable values. People and organizations must learn to create, and commit themselves to, values that govern their actions. Business ethics should therefore focus not only on responsibility but also on creativity. Business Ethics should address organizations that are capable of being creative and innovative not only in terms of technologies and skills but also in terms of setting goals and corporate values.

Lozano called for the openness to spirituality. By spirituality he referred to the cultivation and development of a personal dimension that aims to imbue life with human quality rather than simply being satisfied with attaining a certain standard of living. It should be possible to encourage, develop and channel this kind of human quality in one’s professional life rather than relegating it to the fringe of one’s career or achieving this kind of human quality despite one’s professional life. This means that spirituality can contribute towards transforming one’s professional life.

Thomas Donaldson from *The Wharton School, University of Pennsylvania* underlined that relevant to understanding business ethics is the insight that individual businesspersons qualify as professionals. A 'professional' is someone who professes skills and knowledge derived from an ongoing institution dedicated to a broader good that defines both expertise and service. Because business gains its legitimacy from its social role business practitioners participate, however knowingly or unknowingly, in an institution dedicated in part to the enhancement of society's store of economic wealth. This means that business ethics is a subset of the broader field of professional ethics.

Because the aim of business ethics should be the discovery of the ends and principles appropriate for economic actors, and because it is impossible to say a priori which specific paradigms or scientific methods will be most helpful in achieving such discovery, it follows that business ethics ought not be restricted to any set of paradigms or methods. No restrictions should be placed on the methods or paradigms available to business ethics.

But while the methodological presupposition of business ethics should be sheer openness, it seems clear that two kinds of approaches are necessary - Donaldson continued. That is to say, these are not the *only* approaches, but they are essential ones. The first of these is normative theory itself. By "normative" theory I have in mind the range of theories that are fundamentally prescriptive, including traditional ethical theories (Aristotle, Kant, Mill, etc.), and also the newer additions to the normative pantheon utilized today by business ethics research, including social contract theory and stakeholder theory.

Normative theory is essential to business ethics because, unlike empirical theory, its aim is prescriptive rather than the descriptive. That is to say, it prescribes what behaviour *should* be, not what behaviour *is*. Because business ethics aims to discover the appropriate principles and ends of business conduct, it must employ normative tools and refuse to be limited solely to the discovery of the ends and principles business practitioners do, as a matter-of-fact, follow. As is all too obvious, what *is* the case needn't be what *ought* to be the case.

Donaldson emphasized that the second essential tool that business ethics must utilize is economic theory. However alienated some business ethics practitioners may feel themselves from a field that all too often has neglected ethical issues, and may even in certain of its modern forms embody anti-humanist components, modern economic theory constitutes the popular set of intellectual tools through which economic life is analysed. For business ethics to neglect these tools would be to marginalize it to a point of irrelevance. This is why the contributions of Amartya Sen, the recent Nobel Prize winner

are so significant. Among the aspects of economic theory business ethics must confront are marginal analysis, institutional economics and experimental economics, including game theory.

Donaldson concluded that the future of business ethics as an academic enterprise will be determined by the quality of its academic research. In short, we still need more rigors, more mutuality, and more combativeness than we currently have. As the field evolves we should abandon the illusion that we can be priests or policeman for business practitioners. We should, rather, push to evolve the intellectual maturity of our field.

Local Challenges

Hans De Geer of the *Stockholm School of Economics* focused on the future of business ethics from a Scandinavian perspective. He started with question whether specific Scandinavian – or for that matter European – business and work values can survive in an increasingly international or global context. The development of ethics in international business remains an important issue: will it be more and more American, or will it become “truly international” in scope? In the latter case, what does it mean, a set of common minimum standards, or rather a sort of a-moral situation? What will be the importance, e.g. of the rewritten OECD guidelines for international business?

Business ethics aims at both micro level questions – regarding the inner life of an organization – and macro level issues like the role of business companies in society. In Sweden, as in many West European countries, macro level issues are getting more and more urgent. This has to do with the difficulties of the welfare state and a necessary reconstruction of the relationship between business and society: the Scandinavian model has to be reviewed.

Business Ethics is an eclectic endeavour - pointed out De Geer. Business ethics has its roots in philosophy as part of applied ethics. Also, we are all aware of the importance of contributions from other fields like psychology, sociology, organization theory and

business administration. De Geer called the importance of an historical perspective. The historical perspective is most obvious when we deal with descriptive business ethics, where a dynamic view is important. But also, when we turn to normative business ethics, a wide historical scope provides the necessary background as well as the good and bad examples needed for illustration and identification. Historical studies of the change of business behaviour and business ethics in practice should be promoted.

De Geer argued that business ethics as an academic discipline – unlike e.g. business ethics consultancy – lives in and thrives from the academic atmosphere of freedom of thought and a free standing in relation to the powers of society. However, this is not easily done. Economic universities and business schools is often financed by recurrent donations from business firms and corporations.

Economics and the various aspects of business administration normally does not challenge the business community. Business ethics, on the other hand, has its *raison d'être* in scrutinizing the behaviour of and criticizing business. Therefore it could be more difficult, and maybe not recommendable to finance a program, a chair etc in business ethics from specific donations, but to see it as a concern of the university or school as such. Without the free critical position business ethics has not future.

Eleanor O'Higgins from the *University College Dublin* presented the case of Ireland. She stated that Ireland stands at the crossroads between North America and Europe. For this reason some of the attitudes to ethics and economic activity are a unique blend of American and European approaches. At the same time, Ireland is at a crossroads economically and socially. From being the 'sick man of Europe' in the late 1980s, Ireland has become the fastest growing economy in the OECD, having been nicknamed the 'Celtic Tiger'. This new found prosperity thrown up a host of ethical issues.

O'Higgins focused on the questions that have emerged from Ireland's crossroads status and to discuss how they are informed by, and inform universal ideas on ethics and business. Ireland has been a traditional Roman Catholic society. The Church played a

strong role in regulating people's lives and behaviour, especially on sexual and socio-economic mores. This engendered an attitude where compliance with the dictate of the clergy became almost instinctive. Although the Church was a strong proponent of capitalism, it had nothing to say about standards of behaviour in business. At this level, there was a vacuum.

One of the main reasons for Ireland's economic success has been foreign direct investment, heavily dominated by American companies. These adopt a strongly unfettered capitalist approach. The American market approach is moderated by another cornerstone of Ireland's positive performance, its membership of the EU. As EU member, Ireland has to abide by various measures that give rights to workers and adopt a more 'stakeholder' approach than the Anglo-Saxon model. This has been manifested in a series of social partnership agreements since the late 1980s. These agreements have involved the main employers' body, the trade unions, government, and others, such as the unemployed.

O'Higgins concluded that the case of Ireland raises a number of ethical issues for consideration: where to find the values that underpin ethical business practice; issues of individual responsibility; compliance versus commitment to ethical values and behaviour how far can legalistic solutions go; the relationships between business, government and democracy; the relationships between a stakeholder society and stakeholder corporations is there really a 'third way'; the paradox of the contrast between economic prosperity and social inequity; the relationships among national, corporate and individual moral development.

Yvon Pesqueux, Chair of *Development of Organization Systems* at *CNAP Paris* and former professor at *Groupe HEC*, summarized the business ethics experience in France. First, he emphasized that business ethics may be considered as substantially different in France than in the U.S. The 'ethical evidence' in philosophy (the French school of philosophy with, for example, Michel Foucault, Emmanuel Levinas) appeared before business ethics on the end of the 20th century with some factors in relation with a

'disturbed' sense. Ethics is considered as a necessity and a problematic rather than a way to face business dilemmas in a pragmatic sense.

Pesqueux stated that business ethics appeared in France in the 80s with some mimesis with the U.S. (for example because of the subsidiaries of multinational U.S. companies developed in Europe and because of subsidiaries developed in the U.S. by the European multinational companies) but also in relation with the « ethical evidence » which means in fact a kind of pressure made by the « public opinion ». It is not taken as a real discipline of management sciences but as some appendix because of the legitimacy of engineering culture in France. That is why business ethics related to the U.S. vision is taken as something more or less 'exotic'. The legalism (US - Federal Sentences Guidelines and S.A. 8 000 are completely culturally connoted) has to be compared to sense making in France.

Pesqueux concluded that the vogue for ethics has henerated two main lines of criticism. One sees business ethics as a passing fad, a simple and superficial expression of a deeper crisis, a consequence of the decline of ideology, of grand systems and of "philosophic and religious thought", or a corollary to the uncertainty and failure of politics, the more corrupt the times the stronger the concern for morality. The other sees bsuiness ethics as the recourse to and worship of ethical imperatives, another weapon employed by the company to enhance their image and to cow their workforce into submission.

Future Tasks

Michael Hoffman, Director of the *Center for Business Ethics* at *Bentley College* stated that the business ethics movement has come a long way from compliance programs to a process of instilling values into organizations. An ailing patient, sorely in need of a healthy dose of ethical values has been prescribed a wide range of cures, from codes of conduct and ethics audits, to widespread training and the continual re-evaluation of programs and procedures. But in the past twenty-five years the focus on curing ethical

malaise has mainly concentrated on reaching employees in far-flung facilities – the troops, not the generals.

While these efforts are obviously important, - Hoffman continued - we also have to concentrate on the top levels of corporate governance. The bottom-line of values resides at the board level. The real success of our efforts to implement values-driven management will occur when we are able to integrate considerations of ethics and values *up* in an organization, at the top levels of our global business institutions. Therefore encouraging a commitment to business ethics by those who govern institutions should be our charge. And instilling values at that level can not be implemented by the present strategies of pushing ethics *down* through organizations.

We can predict one thing with reasonable certainty - added Hoffman. The result we desire will not come about if we pursue the business ethics movement in the same way we have before. Values must permeate every level of an organization to influence corporate policy.

Directors, trustees and senior managers are beginning to understand that setting an ethical tone and considering the ethical implications of major decisions play an important role and carry as much responsibility as financial oversight. But while many senior officers are comfortable and experienced analysing financial statements, balance sheets and auditors' reports, it is the rare business leader who is equally facile discussing ethical principles openly and with candor. Thinkers and practitioners in the business ethics movement must help them do this. Business and global leaders cannot possibly demonstrate integrity without an ability to debate and resolve ethical concerns.

Hoffman ended his presentation by naming challenges to business ethics: global corruption, excessive executive pay and substandard working conditions, environmental plunder, complicity in human rights abuses, corporate welfare. The list of challenges is endless, but the prognosis for instilling values at the top of organizations is encouraging, despite the daunting nature of the task. Hoffman believes that the key is a process and

commitment to integrate values-driven leadership and governance to the top of our worldwide business organizations, with the goal of achieving ethics and values in every corner of the globe.

Henk van Luijk, Founder and former President of the *European Business Ethics Network* (EBEN) explored steps business ethics should go forward. He stated that in the last twenty to twenty five years, business ethics has made real progress, both as a discipline and as a practice, in the United States, in Europe, and globally.

The basic question is - Van Luijk argued - whether business ethics as a discipline has been able to draw an appropriate map of the field it is studying. Such a map should make visible what people are doing when they engage in business activities. What are they after? Who are their allies? Where are the obstacles? Which instruments of co-ordination are available? The map will be about the interface between descriptive and normative elements. The map is not the journey. But, maybe, it helps to find new and interesting ways in a land that business ethics, up to now, has crossed mainly via easy-going highways.

This is one step. The other one - Van Luijk concluded - is practical as well as critical. Basically, the business world is not interested in ethics. It is interested in profit, if not profit maximization, and in what protects its continuity of action, as there are a good reputation and a smooth relation with the major institutional partners outside the proper realm of business. This being the case, business can be plain about its objectives, and business ethics can be constructively critical. The second step, therefore, consists of reviewing the all too co-operative relationship between present-day business ethics and the business world, and to re-introduce mutual plain-speak. But, for business ethics, this means that it must know very clearly what it is talking about.

The Dialogue Must Go On

Participants of the Transatlantic Business Ethics Summit mostly agreed that the *American* and the *European business cultures* are considerably *different* and business ethics practiced on the two sides of the Atlantic reflects this difference. Since there is a lot of cooperation and merger between American and European companies the *cross-fertilization* of the American and European business and ethical values seems to be unavoidable. To meet the technological, ecological, and social requirements of the 21st century combining the best of European and American traditions in business and ethics is a promising task.

There was a general agreement among the participants of the Summit that the *transatlantic dialogue* on business ethics must go on. The next Transatlantic Business Ethics Summit is under preparation. It is planned to be held in the Washington, D.C. in Spring 2002.