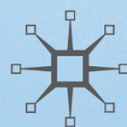


THE ***ETHICAL*** **BUSINESS**

**CHALLENGES AND
CONTROVERSIES**

**KAMEL MELLAHI
KEVIN MORRELL &
GEOFFREY WOOD**

SECOND EDITION



THE ETHICAL BUSINESS

The Ethical Business

Challenges and Controversies

Kamel Mellahi

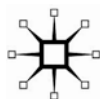
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Kamel

*To my parents for their guidance in the early years, and my wife
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*To my wife Sarah and daughters Emily and Ruby for the joy they
bring me, and to my mother Angela and mother-in-law Sheron
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Geoff

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Cartoons by Kevin Morrell

Preface to the second edition

How to use this book

Business ethics is an applied activity. We have eight ‘applied’ chapters at the heart of this book, and at the heart of our approach. There are four chapters on major themes in business ethics: Governance and Compliance, Social Partnerships, Green Issues, Globalization and Trade (Chapters 3 to 6). There are also four chapters on major business domains: Accounting and Finance, Organizational Behaviour and Human Resource Management, Marketing, Supply Chain and Operations Management (Chapters 7 to 10). These chapters are designed to stand on their own and we encourage tutors and students alike to take a modular approach to this book. With that in mind, we strongly suggest that Chapter 1 is required background reading. It outlines the most influential theories in ‘business ethics’. For those unfamiliar with, or new to, the topic, please read this chapter first. To get the most from the many cases we discuss, a decent understanding of the ideas in Chapter 1 is essential.

Chapter 2 is more specifically about our approach to ‘business ethics’. It is not crucial to read this to interpret the following chapters, but it does make the case for why this book is different from some other texts, and it is placed deliberately as a bridge between the theories in Chapter 1 and the applied nature of Chapters 3 to 10. Chapter 11 is a reflective and integrative summary.

We hope you enjoy working with this book.

KAMEL MELLAHI
KEVIN MORRELL
GEOFFREY WOOD

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Introduction

Ethics concerns attempts to distinguish ‘right’ from ‘wrong’, ‘good’ from ‘bad’ and what constitutes desirable conduct in a particular set of social circumstances. In the field of business ethics there is a startling variety of theories, approaches and philosophies, each professing to offer fundamental insights into what constitutes business ethics. Over the years, the subject of business ethics expands, making it increasingly difficult to oversee the subject area. To make things worse, many of the ethics theories and perspectives propounded are conflicting in both outlook and remedies. This explains, partially, why some managers are sceptical about business ethics and the value of being ethical altogether, opting instead for a ‘pragmatic’ approach when dealing with ethics. In this volume, we take the view that business ethics seeks to understand what constitutes ethical behaviour on the behalf of the firm, why firms should act ethically, and what the outcomes of ethical conduct should entail.

There is little doubt that business ethics has become an increasingly fashionable area of enquiry over the past twenty or so years. Today, firms face considerable consumer pressure to be seen to be acting in an ethical manner, while legislation designed to ensure ‘good’ corporate behaviour – in areas ranging from marketing to the environment – has proliferated. Ironically, these pressures have been partially offset by others, including increasingly mobile investor capital, the rise of speculator-driven economic activity, and rapid changes in technology and market compositions, all of which encourage managers to take a short-term profit maximization point of view. It is thus no coincidence that the 1990s and 2000s have seen firms placing increasing emphasis on developing ‘green’ consumer products, on reducing waste and encouraging recycling, but also persistent financial scandals and ongoing allegations of misconduct by major multinational firms in the developing world. It is generally recognized that business ethics matters. More contentious are questions such as where the primary duty of management lies – to shareholders, all members of the organization, stakeholders, society, or the entire biosphere? Similarly, if managers act only in an ethical fashion to stay out of trouble with the law, or to placate consumers, are they really acting in an ethical fashion at all? In other words, is a ‘good’ action only ‘good’ if prompted for the ‘right’ reasons. These issues represent central themes in the contemporary literature on business ethics, and indeed, in this volume.

This book is divided into three closely interrelated parts. In the first, entitled ‘Theoretical Foundations’, we introduce key concepts and issues related to business ethics, and ground the field of business ethics within the classical philosophical tradition. In the second part, ‘Issues Facing Management’, we go

on to explore a range of contemporary ethical issues and policy options facing management, ranging from corporate governance to green issues. In the third part, entitled 'Ethical Management in Practice', drawing on many of the constructs and issues discussed in the earlier parts, we outline key ethical questions and debates facing the different functional areas of management, ranging from finance to marketing.

Whatever one's ideological orientation and to whatever philosophical tradition one is most drawn, it is clear that business ethics matters, for legal, marketing and productivity reasons, but, perhaps, above all, in order to provide the basis for advancing the human condition. More contentious is the question of priorities, and whether ethical questions should, at times, be sacrificed in the interest of realizing other goals, such as maximizing stockholder value. However, it is recognized increasingly that ethical management has a value of its own, both in terms of making the world 'a safe place in which to do business', and in contributing to the general well-being of wider society and the natural environment.

Part 1

Theoretical foundations

Introducing business ethics



Chapter objectives

- To understand what constitutes ethics, and the relationship between ethics and specific moral guidelines.
- To introduce the principal philosophical frames of reference and their relevance to ethical practice in the real world.

1.1 Introduction

Business ethics can mean different things to different people (Jones *et al.*, 2005). Here we want to suggest that it is an attempt to apply the tools and concepts developed by philosophers to distinguish ‘right’ from ‘wrong’ and the desirable from the undesirable, to the corporate world. Ethics is an applied form of philosophy because it places a greater emphasis on human and organizational behaviour and on action in the world. At their heart, ethical questions include studies of the nature and origin of our concepts of good and bad, the just and the unjust (Lamsa, 1999: 346). These questions have been debated for thousands of years and they are continually contested. ‘Business ethics’ is a comparatively new development – or at least the phrase ‘business ethics’ is comparatively new. Essentially it can be thought of as the study of business from an ethical point of view. It is worth saying at the outset that we think it is legitimate to question whether there is a need for a separate term like business ethics at all. In an important sense, ‘ethics’ should apply equally to life in business as it does to life in general. We even have some sympathy with those who suggest that there is a basic tension between the terms business and ethics, and that bringing them

together is a mistake. Of course, business decisions have ethical implications, but then so does any sphere of human activity – does the phrase ‘business ethics’ imply there is a different set of rules for ethical behaviour in business that we otherwise don’t have to follow? Is business ethics the ‘get-out clause’ we look for if we want to continue to profit and compete in the marketplace? We don’t think so, but it is true that many of the questions we think of as being at the core of ‘business’ (how profitable something is, how efficient, how it will survive in the marketplace and so on) involve very different sorts of considerations from basic ethical questions that are related to justice, fairness, and right and wrong. You may already have heard the rather tired phrase that business ethics is a contradiction in terms, an oxymoron. Although it’s often said in an intellectually lazy manner – to dismiss, rather than encourage further thought – it does signal a basic challenge that books such as this engage with in different ways. You may also have heard a completely contradictory assertion that is almost as empty – namely, ‘good ethics is good business’. That is even less helpful, because it is such a vague generalization. It becomes a nonsense when we learn how highly profitable companies engage in commercial espionage, union busting, unethical outsourcing and a host of other questionable practices. Or when we consider those legitimate businesses that do exceptionally well from manufacturing products with repugnant consequences, such as tobacco and arms manufacturers. Plenty of illicit organizations do good business precisely because they deal in drug trafficking, people smuggling and counterfeit goods. Where, then, does all this leave business ethics?

In the past few years, there has been a proliferation of courses at business schools which deal with business ethics. Critics have charged that such courses can easily fall into the trap of being seen as little more than a soft and easy option, lacking both theoretical depth and practical nuance (Freeman, 1991: 17). None the less, there is little doubt that there is a rapidly burgeoning body of critical literature on the subject. Alongside this, practical courses have tried to address the challenges of providing worthwhile ethical tools relevant to the rapidly changing business environment of the 2000s. In the first half of this chapter, we explore in general terms what really constitutes ethical behaviour. More specifically, we examine whether there can be any definite and fixed standards about ethical behaviour, or whether moral standards will always change according to different social contexts. This is often referred to as being a debate about ethical relativism. To illustrate, consider two different explanations for how and why we have ethical standards (that is, shared beliefs about what is right and what is wrong). First, some people believe that ideas of right and wrong are social constructs – that is, they are purely and simply the product of whatever society or community created them. If you believe this, or if you believe that what counts as right and wrong depends on the circumstances, then either of those beliefs would put you firmly on the ethical relativist side of the debate. You would feel that ideas about good and bad are relativist because they always need to be understood relative to the context (either the community or the situation): there is no

absolute right and wrong. Second, and in contrast to this, some people believe that there are important moral absolutes. An example of one moral absolute might be that ‘you must not kill another person whatever the circumstances’; or another might be ‘you should never discriminate against someone purely on the grounds of their race, whatever the circumstances’. If you believe that this, or something like this, should be a moral principle, that had to be followed without exception, then you are on the anti-relativist (or absolutist) side of the debate.

Deciding on these issues is not by any means easy. You might want to allow some flexibility to determine what is right and wrong if you think life is too simple for moral rules. Some might think, for example, that the state, in protection of its citizens, should give some highly trained and qualified people the right to shoot a person who is a terrorist, if they think this can save other lives. As an individual, you might also feel that you want to respect moral systems from different cultures and traditions, and perhaps allow for the fact that your own opinions about morality may be culturally biased. Those kinds of beliefs seem to commit you to relativism. On the other hand, you might want a guarantee that some of the rights you enjoy as a human being (such as the right to life) should be protected, no matter what. That seems to commit you to absolutism. You might also be unhappy with some of the implications of relativism. For example, if two people disagree completely on a moral issue, a relativist stance would imply that they can both be right (or that neither is wrong). If you disagree, you may discover you are absolutist. At its heart, deciding where to locate yourself in this debate is perhaps less important than continuing to reflect on the basic question that prompts the debate in the first place. Does what is considered ‘good’ and ‘bad’ vary greatly from society to society, from business to business, or from organization to organization, or are there certain broader issues of ‘right’ and ‘wrong’ that have a global relevance? In the second half of this chapter we follow up such practical questions, by assessing the extent to which such dilemmas can be resolved through philosophical theory. We outline some of the main schools of philosophical thought that have been applied to understanding business ethics: utilitarianism, deontological ethics, virtue ethics, rights-based approaches, and some more contemporary contributions in what are sometimes collectively referred to as postmodern approaches.

As noted in the introduction, there is little doubt that contemporary firms are under considerable pressure – from both consumers and governments – to act (or perhaps at least to be *seen* to act) ethically. However, if they are motivated simply by external pressures, are such actions devoid of moral worth? Should we give credit to businesses for acting ethically, if they are doing it only for selfish motives? Proponents of the different philosophical traditions of utilitarianism, the rights-based approach, deontological and virtue theories, and the more contemporary theorists will differ radically in their responses to this and to other central questions.

1.2 Moral relatives and ethical absolutes

1.2.1 What is ethical conduct?

It may be useful to draw a distinction between ethics and moral codes; the latter are specific, and confined to particular sets of social circumstances (Singer, 1995: 2). Ethics can be seen as a more general term, denoting both ethical theories and day-to-day moral beliefs, though many make a more detailed distinction (Beauchamp and Bowie, 1997: 2). Thus moral codes differ greatly from society to society, an example being restrictions on sexual conduct or, for that matter, the use of particularly vulnerable categories of labour, such as children. In contrast, ethics are universal; central to our ideas of what it means to be human are some notions of ‘good’ and ‘evil’, and certain social taboos that are common to all societies.

There are problems in trying to decide what counts as ethical conduct. Let us look at the commonplace idea that ethical conduct is partly about putting someone else first. This could be: letting someone cross the road in front of your car, or holding a door open for someone; in more dramatic cases, it could be giving blood or donating organs. Such actions are often described as *altruistic* – acting for another’s sake (in Latin *alter* = other). Now, some people have suggested that there is no such thing as genuine altruism. Even if we appear to be acting for the good of others, we are only doing so in because it is in our own self-interest: we like to feel good about ourselves, to act consistently with a favourable self-image and think we are nice people and so on. This theory – that all behaviour is motivated by self-interest – is known as *psychological egoism* (in Latin *ego* = ‘I’ or ‘self’) and it can be summed up by an exam question one of the authors of this book once encountered: ‘There are altruistic actions, but there are always egoistic explanations for those actions’. If psychological egoism is true, how can we give credit for ethical conduct? Why should we reward someone who is doing what they want to do in any case and acting in their own interest? This has some quite wide implications. For example, is a bank being ‘ethical’ if it refuses to lend money to some types of companies (tobacco companies, say). If the same bank advertises an ethical lending policy as part of its business strategy, and makes money doing so, then how is it being ethical?

What makes the question of ethical conduct even more complicated is that even though many agree that altruism is the cornerstone of acting ethically, some people have suggested all individuals *should* try to act solely in their own self-interest. This position of self-ishness is even stronger and is sometimes referred to as *ethical egoism*. It has some wider implications too. For example, some people have suggested that the most efficient way for capitalism to work is for individual firms to pursue their own self-interest. Firms exist to make profits and (provided they act lawfully) by doing that they discharge their social responsibilities. The bank making money through ethical investing could say it is acting ethically simply because it is making money for shareholders. Even if the bank’s motives were selfish, it could be said that it had a duty to act selfishly because it needed to offer its own investors a profit.

Self-interest and good ethics often coincide, as it is often in one's interests to act morally or altruistically (Ridley, 1996; Singer, 1995: 3). For example, to our knowledge, all societies have one or another taboo against the arbitrary killing of healthy adults belonging to one's own social unit. However, many societies tolerate some degree of euthanasia (commonly of the very old or the very young) or the slaying of 'outsiders' – those who have for some reason placed themselves beyond the pale of society.

Law is the public's agency for translating morality into specific social guidelines and practices, and specifying punishments (Beauchamp and Bowie, 1997: 4). However, it is often all too easy for firms simply to refer ethical problems to their legal departments, the assumption being that if it is not likely to run into trouble with the law, then an action is ethical (Beauchamp and Bowie, 1997). None the less, the law is not concerned with moral problems *per se*; the fact that an action is legally acceptable does not make it moral. An example cited by Beauchamp and Bowie (1997: 4) is the case of Pacific Lumber, the subject of a hostile takeover by Charles E. Hurwitz. Hurwitz took over the firm, in the teeth of managerial resistance, who feared that he would take a far more ruthless and short-term approach towards the firm's resources, both human and natural. Hurwitz immediately doubled the rate of tree-cutting in the country's largest private redwood forest, to pay off debts incurred in the takeover, an action many critics branded as immoral, though it was perfectly legal (Beauchamp and Bowie, 1997: 5).

It should also be recognized that while it may be very easy to draw ethical boundaries in theory, it is somewhat more difficult to do so in practice. This is partly why debates about relativism and absolutism are often very difficult to resolve. We have just seen that while the killing of fellow humans is generally seen as unethical across societies, in some circumstances it is tolerated, or even condoned. Again, most societies value truthfulness; in fact, some degree of truth-telling is necessary for basic social cohesion. However, as Singer (1995: 2) notes, an absolute prohibition on lies may be of little value in specific circumstances. For example, in Nazi-ruled Europe, in response to Gestapo enquiries, it would be surely right to deny it if you had a Jewish family hiding in your house. Similarly, in apartheid South Africa, should managers have co-operated with the authorities in the implementation of the pass laws aimed at restricting the movement (and civil liberties) of African workers? Indeed, hindering the agents of unjust authority wherever possible is surely an ethically commendable stance in life, even if it involves regular deception.

In deciding what constitutes ethical business conduct, it is even more difficult to draw firm distinctions between 'right' and 'wrong'. Perhaps all that can be hoped for is to make people more attuned to recognizing moral complexities (Solomon, 1992: 4), and better-equipped to deal with them. This is particularly important in that all business decisions do have an ethical dimension (Solomon, 1992: 4).

Two of the core disciplines of the management sciences – economics and accountancy – are centred on the basic assumption that all social actors (both

individuals and groups) are ‘utility maximizers’ (Bowie, 1991: 29). In other words, in seeking to maximize the material benefits accruing to themselves, these actors are always looking after their own interests (utility can best be understood as the sum of benefits an individual or group may derive from a particular action). However, certain contradictions are inherent in these assumptions, the most obvious being the clash of interests between principals and agents (Bowie, 1991: 29); that is, between the owners of the firm (principals), and their employees (paid agents). This tension is apparent whether the employee is drawn from the highest ranks of senior management, or is the most junior hourly-paid worker. While it is possible to argue that the clash between personal and corporate interests can be reconciled, or that any differences that do arise can simply be factored in, in practice, the issue is often neglected (Bowie, 1991: 29). According to Ghoshal (2005) this problem is just one illustration of how the most influential perspectives on business and management come from disciplines whose view of social life is inherently ‘gloomy’. The view of people and organizations as utility maximizing and self-interested may be useful in modelling behaviour in markets, but it does a poor job of addressing ethical behaviour. In practice, ethical conduct in the business world is likely to involve a casting aside of conventional wisdom and such crude assumptions of self-interested agents. Instead, it will involve taking the interests of others, rather than the firm, or the person of the manager, first (Bowie, 1991: 29).

1.2.2 Why does business ethics matter?

Business ethics became an increasingly fashionable field of study in the 1990s. There is little doubt that, in part, this represented a reaction to the excesses of the 1980s, to the central emphasis on individual financial gain – no matter how that was achieved – and the ostentatious display of wealth that characterized that decade. By the close of the 1980s, a range of factors, from repetitive financial scandals to objective evidence of global environmental damage, underscored the importance of ethical conduct in business (Vinten, 2000). However, as we have already touched upon, and as Solomon (1992) notes, it can be extremely difficult to define what constitutes ethical conduct. An often cited example of the kind of ethical dilemmas confronting managers would be dealing with the problem of downsizing a workforce of dedicated loyal employees as a result of a cost-cutting decision made by superiors (Solomon, 1992). This simple scenario illustrates three sets of competing interests: the principals who presumably wish to minimize labour cost to secure greater revenue (or, more charitably, to ensure the long-term success of the firm); their agents who have to face the fallout of such a decision at the front line, and attempt to manage it; and the redundant employees who have lost their livelihoods and income, and in all likelihood a large part of their identity. More importantly, it also suggests that some ethical problems may well have no solution. Managers in this case may well have to come to terms with the fact that the best they can do in such a scenario is to cause as little further pain as possible.

Given that a firm is legally defined in terms of its stockholders, executives and employees are placed in a morally ambiguous position: both as paid agents entrusted with the task of dealing with competitors, and maximizing profits. However, as Solomon (1992: 8) notes, competition is just one of a number of relationships that firms have with each other, and with members of the wider community. Focusing solely on being competitive can be disastrous for the community, and indeed for the underlying co-operation that is necessary for any successful business activity. Indeed, the emphasis on short-term profit maximization in the closing decades of the twentieth century, characterized by corporate raids and hostile takeovers – in the name of stockholder rights – and the resultant defensive downsizing bloodbaths crippled many firms and injured hundreds of thousands of loyal employees (Solomon, 1992: 8 and Lamsa, 1999). Instead, it can be argued that by according greater attention to ethical concerns, the firm can secure its role as a vibrant and creative part of society over the medium and long term (Vinten, 2000).

Solomon (1992: 258) argues that without a sense of community and co-operation there would simply be no firm; indeed, without individual and corporate virtue (virtue being ‘goodness’ likely to benefit society as a whole), all success would be empty and transient. However, in any less than perfect organization or society, there is no guarantee as to what virtue theorists would refer to as the ‘unity of virtues’ (Solomon, 1992: 260). ‘Good’ conduct is dependent on the context, and different contexts may overlap or they may clash with one another. This problem of the unity of virtues can be seen as another example of the problem of ethical relativism we introduced above. If we accept that context has a very strong influence on what people perceive to be ethical behaviour, it is possible to see how, in some situations, people can become so tied to their jobs, or to their company’s way of doing things, that they become incapable of looking beyond the narrow horizons of what their company or their manager defines as ethical. This may explain why a stockholder view of the firm and its responsibilities means that people can become focused on profit, or the ‘bottom line’, to the detriment of other considerations. One feature of organizational life is that hierarchies can result in people behaving out of character, or with insufficient thought about the ethical implications of their actions. The combination of a focus on the bottom line and unthinking obedience to superiors can be an unhappy one. More recently, however, and particularly in the wake of a number of high profile corporate scandals, there has been something of a reaction against unethical business practice (Daily *et al.*, 2003; Lamsa, 1999). This reaction encompasses many of the topic areas we introduce in this book. For example, we discuss these and other issues in the remaining chapters: the role of corporations in marketing their products to vulnerable audiences (Chapter 9), the impact of corporations on the environment (Chapter 5), and on working conditions for those in developing countries (Chapter 6); the need for ethics in accounting practices (Chapter 7) and attention to governance mechanisms (Chapter 3); discomfort with organizations treating their employees as a

disposable commodity or 'human resource' (Chapter 8). Some theorists suggest that firms today are more conscious of the importance of taking ethical issues seriously (Solomon, 1992: 261–6). Barry describes how, '[t]he world of global business is marked by a remarkable and growing concern with ethics' (Barry, 2004: 195).

1.2.3 Practice and theory

Despite, or perhaps even because of, this recent flurry of interest, there is a danger that business ethics can simply be deployed as a whitewash, without any real changes in conduct (Freeman, 1991: 12). For example, there is little doubt that *claims* of environmental good conduct can help to sell products; however, there is often little monitoring of environmental claims that can be ambiguous or bogus. Examples of the former could include claims that wood or paper products are from sustainably managed plantations. However, this could conceal the fact that the plantations in question may have been planted in the place of clear-felled tropical forests, or that thirsty alien species of trees may disrupt natural rainfall catchment areas, with negative consequences for human and natural communities downstream. Other claims may simply be bogus: the consumer has little chance of discovering, for example, if tropical hardwood products are indeed from sustainable sources, or from the uncontrolled timber 'gold rushes' that are currently taking in place in countries such as Cambodia, Mozambique and Brazil. Similarly, there is a high likelihood that wildlife products – ranging from ivory to skins – may be sourced from international poaching rackets, whatever the vendor's protestations.

Beauchamp and Bowie (1997: 11) argue that there are three basic approaches to studying business ethics: the prescriptive (an attempt to formulate and defend basic moral norms); the descriptive (focusing on describing practices, moral codes and beliefs); and the conceptual study of ethics (involving analysing central ethical terms, such as right, good, justice, virtue in an attempt to distinguish what is moral from what is immoral). Some critics of prescriptive approaches to business ethics argue that rule-setting erodes the freedom of the individual and entails a degree of inflexibility that means we are insensitive to the particular features of an ethical problem. However, while it is undoubtedly correct to argue that any regulation erodes the freedom of the individual, there is little doubt that a number of practical measures to enforce ethical conduct have been of great benefit to humanity (Beauchamp and Bowie, 1997: 9). For example, the banning of the use of chlorofluorocarbons (CFCs) represents a major step towards undoing damage to the ozone layer.

To proponents of ethical relativism (to recap, these are people who believe that what counts as good or bad varies so greatly from society to society that there can be no ethical universals) moral rules are culturally specific. It follows, then, that any attempt to enforce universal ethical codes represents little more than a form of cultural imperialism (one society imposing its will on another). Some Asian critics of attempts to promote Western democracy have suggested

that democracy is neither in the interests of, nor desirable in, certain Far Eastern societies. This viewpoint is most associated with the governments of China and Singapore. However, despite considerable variance in moral rules and what different communities may see as desirable, there is little doubt that the underlying principles of morality are often similar. It is generally recognized, for example, that sometimes the interests of the individual have to be sacrificed for the good of society as a whole. It therefore follows that – at least in some cases – a distinction can be drawn between relativism in terms of judgements about a particular situation, and relativism in terms of underlying standards (Beauchamp and Bowie, 1997: 10). In other words, people may differ on how ethical standards may be best met, but certain basic underlying norms may still be common to all societies. A controversial illustration of this may be that some features of family life are often considered cultural universals (for example, taboos on incest and illegitimacy, or male dominance) (Hendrix, 1993). None the less, it should be recognized that moral disagreements are inevitable – by their very nature they provoke disagreement and diverse opinions. Also, they may not always be resolvable, because of, among other things, a lack of information, lack of definitional clarity, and selective use of evidence: ‘Though there is a sense in which ethical issues in business can, and must, be resolved, this is a very different proposition from suggesting that there will be one, definitive solution “out there” that will be accepted by everyone’ (Morrell, 2004: 390).

However, whether one’s starting point is ethical relativism, or a more universalist approach, there is little doubt that, even outside the basic family unit, certain strictures (or social taboos) underpin ethical conduct within specific social settings. This can be in the form of laws, unwritten rules, or various codes of conduct relevant across firms, industries or professions. In academic life, for example, there is a strong taboo against plagiarism. Any false or malicious allegation of plagiarism will irreparably damage a relationship, as any half-competent academic will know. This is an example of a strong universal professional taboo. Sometimes, though, questions relating to ethical behaviour are set down explicitly, or codified. In terms of the relationship between the law and ethics, we saw earlier that laws can facilitate ethical behaviour but they cannot ensure ethical conduct by all individuals, all the time. There is little doubt that a degree of self-policing may be desirable. For many years, a number of professions (such as law and accounting) have upheld sets of professional standards. However, in a rapidly changing global environment, several professions have increasingly battled to maintain professional reputations given the consolidation of the industry. The accounting industry is often singled out in this regard, since conflicts of interest can arise with some of the larger accounting firms who simultaneously offer consultancy and auditing services. In the 1990s, there was a string of high-profile scandals which highlighted specific cases of auditing shortcomings (Daily *et al.*, 2003). The most infamous recent example of this was the case of Enron in the United States (McCall, 2004). The firm’s auditors, Arthur Andersen, also offered managerial consulting services to Enron. This situation resulted in senior partners being allegedly complicit in covering up malpractices, leading to

the latter's demise, with 'fundamentally unfair and inaccurate portraits' of the management accounts (Jennings, 2004: 1). 'Enron collapsed when the market lost confidence in it...loss of market confidence was not so much the cause of the collapse as a symptom of the long-term inflated reporting of assets and expected earnings...compounded by the passive compliance of the auditors' (Morrell and Anderson, 2006: 123). High-profile corporate scandals such as Enron have led critics to argue that the setting of ethical standards is too serious a business to be left to the professions, and that more ethical conduct can only be engendered through both an overhaul of existing legislation and a sea-change in popular attitudes.

There are indeed people who advocate sweeping and systemic change. Goodpaster argues that creeping moral disorder in society can only be checked if the respect for persons is placed at the centre of our notion of corporate community (quoted in Gilbert, 1991: 111). This should be incorporated in the overall strategic vision held by senior management, leavening out the demands of corporate self-interest, profits and the law, to be enacted out through managerial processes (Gilbert, 1991: 111). It can be argued that Goodpaster's vision is a somewhat limited one; a more comprehensive approach to ethics should also incorporate an underlying 'respect for persons' alongside the grand strategic vision. Such an underlying ethos would include the organizational rank-and-file, allowing room for a firm-wide dialogue on values and introspection by non-executives (Gilbert, 1991: 111). From this viewpoint, the modern firm is perceived as an arena, within which interacting individuals have the opportunity to reconcile their relationships. This arena is a forum for the exchange of ideas, and a place where different opinions are listened to because of a shared respect and commitment to some underlying ethical values.

1.2.4 What is ethics practice?

Singer rejects the notion of ethical relativism and instead suggests that we should 'do what increases happiness and reduces suffering' (1995: 5). As we shall see, this is a utilitarian stance on ethics. Before we discuss this more fully, it is worth examining his rejection of relativism in more detail. He suggests that ethical relativism can provide a justification for situations that seem to us intrinsically unfair; for example, the use of child labour. Ethical relativists would argue that child labour could be justified if a particular community or society believed that it was the right thing to do. This is a 'global' argument for the rejection of ethical relativism, but there are individual and personal arguments against it as well. For example, self-interested acts should surely be compatible with more broadly-based principles if they are to be thought of as ethical (Singer, 1995: 10). This means that there has to be some basic commitment to shared standards, or else we would have chaos, with each person justifying their own choices with reference to the relativist argument that 'there are no absolute rules, so everything and anything is permitted'.

In the end, because it is an applied discipline, ethics should be about deeds, not about sterile philosophical debates. Both Immanuel Kant and Adam Smith repeatedly emphasized that our day-to-day actions should be guided by enlightened self-interest and altruism – a concern for others (Freeman, 1991: 19). It is from this position that many writers – and most other philosophers of ethics – postulate their theories (Freeman, 1991). A central practical concern which many of these theorists share is that we should have a fairer and more just world. Many ethical problems are about trying to redress instances of unfairness and inequity. This inequity can be seen in the way that governments or regimes control power, and in the way that goods are unfairly distributed in society. It is also evident in how most people's chances of success are allocated to them at birth, and in the way that, across all nations, power is concentrated in the hands of a few. The desire to promote greater equity does not have to be about such grand or abstract issues, nor does it have to be based on the assumption that all individuals are equal and with equal abilities. Instead, acting ethically should mean that we work on the notion that all individuals should be given fair opportunities to realize themselves to the best of their potential (Singer, 1995: 16–17). A contemporary illustration of this might be in relation to debates about positive discrimination or affirmative action (for example, large organizations may seek to promote women from minority ethnic groups on the grounds that they are under-represented). Some forms of affirmative action can be justified regardless of whether the beneficiaries are of superior, inferior or equal ability to the bulk of the populace, and regardless of whether such actions lead to greater profit. In the case of the under-representation of women from minority ethnic groups, we could argue that some organizations are set up in such a way that prejudice is built into their corporate structure. Breaking down such entrenched barriers to equality is an ethical stance that should be pursued irrespective of whether or not there is a 'business case'.

1.3 Different philosophical approaches to business ethics

1.3.1 Key perspectives

Bowie (1991: 33) argues that there are two major theories of business ethics: deontology, founded on underlying rules, and utilitarianism, which sees ethical behaviour in terms of desired outcomes. In addition, a further three frames of reference have had increasing influence. The first, virtue ethics, is founded on the philosophies of the ancient world and in particular on the writings of Aristotle and Plato. The second explores ethics from the issue of basic personal rights. The third reference frame (which is really a loose cluster of viewpoints), postmodernism, would blame ethical failings on the Enlightenment's emphasis on rationality, and on the pursuit of 'progress' and 'advancement', regardless of the subjective human cost. Beginning with a discussion of deontology and utilitarianism, we shall move on to discuss virtue ethics, rights-based approaches and postmodernism.

1.3.2 Deontology

From the ancient Greek *deon*, meaning duty, deontology has its foundations in the works of Immanuel Kant (1724–1804). In his influential *Practical Reason*, Kant argued that we should ‘impose on ourselves the demand that all our actions should be rational in form’ (quoted in Burns, 2000b: 28). Kant suggested that there are certain rules of morality that are binding on all rational beings (he was most definitely an anti-relativist). He went on to say that an action is only morally right if you were willing to have everyone act in a similar way in a similar situation (Lamsa, 1999: 347). In other words, ‘maxims should be universalized’ (Burns, 2000b: 28). What the phrase ‘maxims should be universalized’ means is that each of us should act as though our choice would become a moral law for everyone else. Though it is sometimes summarized in a trite way as the ‘golden rule’ or a ‘do unto others as you would have them do unto you’; Kant’s ideas are far stronger than that. He is not simply suggesting we treat others as we would want ourselves to be treated in return. He goes a lot further, by placing an obligation on us that almost requires the actions of a saint. His golden rule is more like, ‘behave towards others as if the whole world was watching you, and as if from that moment on the whole world would behave in exactly the same way for the rest of time’. This was something that should be applied to all actions (so it was categorical) and it was a ‘must’ statement (so it was an imperative). In what was another implication following from his categorical imperative, Kant stated that people must never be treated only as a means, but always as an end in themselves (Lamsa, 1999: 347; Beauchamp and Bowie, 1997: 30). Kantianism has some very powerful and stringent implications. It implies that one should act in an ethical way because it is one’s duty, regardless of the consequences (Kitson and Campbell, 1996: 13). Kantianism also lays down obligations that – if followed – are strong enough not be self-defeating, solving the problem of destructive individual ‘freeriding’ (a problem that, as we have seen, plagues utilitarianism) in the face of co-operative action (Kitson and Campbell, 1996: 15).

Of course, moral problems in the real world are extremely complex. Above all, there is the problem of uncertainty, and what really constitutes right and wrong. A decision to downsize the workforce in a company may, for example, be a product of forces beyond the manager’s control. It may work out as the best course of action for those staff members who are retained, yet it may also inflict great misery on those who are made redundant (Lamsa, 1999: 347). As Kant argues, human nature is ultimately fallible and it is impossible to ensure perfect outcomes ‘from the warped wood of human nature’ (Kant, 2000: 55). Lamsa suggests that one way out of such moral dilemmas is often to behave according to custom, which can provide useful moral benchmarks (1999: 347). The problem with this approach is that any reliance on custom brings us back to a relativist standpoint, when the whole point about Kant is that his rule – the categorical imperative – is universal.

For Kant, people’s motives for their actions are critical. People should make the right decisions for the right reasons; if people are honest only because

honesty pays, honesty itself is cheapened (Beauchamp and Bowie, 1997: 30). In other words, if a firm acts in an ethical fashion to help it market its goods and services, and hence to enhance its profits, then such actions are devoid of moral worth. Absolute morality is a categorical imperative, with social interaction and civil society being dependent on moral action by all (Kant, quoted in Burns, 2000b: 28). Or, to give another example, managers are not really acting ethically at all, if they are simply prompted to do so out of fear of prosecution or by consumer pressures. This emphasis on motives is an important one. It is not a distinction that would necessarily trouble those in the utilitarian camp; to the latter, any increase in overall happiness, regardless of the rationale underlying the actions that led to this, would be desirable.

Kant believed that actions should respect underlying moral law; a person's motives should reflect a recognition of a duty to act – and that morality provides a rational framework of rules, which constrains and guides people (Beauchamp and Bowie, 1997: 33; Kant, 2000: 54–5). While certainly detailed, Kant's writings are somewhat open-ended and incomplete; contemporary deontologists use Kant's notion of respect for persons as a ground for providing ethical theories of justice and rights, and for distinguishing the desirable from the undesirable (Beauchamp and Bowie, 1997: 33). Even so, it is difficult to overstate the importance that his ideas have had on moral philosophy, and Kant is often considered to be one of the greatest philosophers to have ever lived, in part because of his ideas about ethics.

Ultimately, deontology hinges on a system of rules. This has led critics to argue that deontology is overly inflexible, and that any moral ambiguities may only be resolved by finding ever more complicated or specific rules, and by ranking them in a hierarchical way, so that they do not conflict with one another (Singer, 1995: 3). However, empirical research would seem to indicate that many managers do approach ethical decision-making from what is effectively a deontological starting point (Menguc, 1998).

1.3.3 Utilitarianism

Utilitarianism is based on a moral principle (the utility principle), but it is not really founded on moral rules (the means). Instead, it is founded on goals (the ends) (Singer, 1995: 3). The classic utilitarian view sees an action as right if it results in the greatest net utility (happiness) for the most people possible. So, out of a choice of several options, the one that should be pursued is always the one that maximizes happiness and minimizes pain overall. There are some problems with this view, as we shall see, but the main thing to bear in mind is that utilitarianism is concerned with the consequences of a particular action; hence it is consequentialist. This is in contrast with those who would try always to follow set principles. A utilitarian would not have a rule of 'you should never lie', for example. To a utilitarian, lying may be commendable in some circumstances (if you refuse to tell a drunk and abusive mother where her baby is, for example), but it may be bad in many others. Utilitarians argue that the 'goodness' of one's