

WHAT IS BUSINESS ETHICS?

Business ethics considers the ethical relationship between businesses and consumers, between businesses and their employees. It also considers the impact of globalisation on the environment, and on society at large.

Ethicists do not always agree about the purpose of business in society - some see the main purpose of business is to maximise profits for its owners or its shareholders. In this case, only those activities which increase profits are to be encouraged as this is the only way that companies will survive - this was the view of the economist Milton Friedman. Others consider that businesses have moral responsibilities to their stakeholders; including employees, consumers, the local community and even society as a whole. Other ethicists have adapted social contract theory (based on the Ideas of John Rawls in his *A Theory of Justice*) to business, so that employees and other stakeholders are given a voice as to how the business operates. However, this view is criticised as businesses are property, not means of distributing social justice.

Times have changed, however, and ethics in business and corporate social responsibility are becoming crucial. There are many reasons for this, driven by the social, political and economic developments in the world. Consumers have shown their dissatisfaction through taking to the streets, and there have been riots from Genoa to Seattle, bring together many different types of activists and protestors campaigning on a variety of business related issues from globalisation and human rights to third world debt. Stakeholders, and especially consumers, are becoming increasingly empowered and vocal, forcing businesses to review their strategies.

Organisations like The Body Shop and The Co-operative Bank have led the way and brought business ethics and social responsibility into the public eye and onto the business agenda, championing key issues such as human and animal rights, fair trade and environmental impact. Consumers now expect businesses to be socially responsible, and businesses are increasingly thinking about what they can achieve by putting the power of their marketing behind some key social issues so that they can help make a positive social difference.

However, business ethics is not as simple as it looks as there is no longer one agreed moral code and multinationals operate in different parts of the world, employing and serving people from different cultures. Profit will still be the main motivating factor for businesses and this affects all the people who work there, generating its own culture with its own standards, so it becomes difficult for individuals to stand up against any attitudes and decisions they disagree with.

Modern technologies also create ethical dilemmas for businesses that never existed until quite recently - such as medical products and gene technologies: should parents be allowed to alter the genetic profile of their unborn child, and should businesses sell products to do this?

All these issues pull businesses in different directions, so that many now set up their own ethical committees. Businesses that get caught acting unethically are publicised in the press, and pressure groups that oppose the activities of certain businesses are better organised, better financed, and so better able to attack such businesses. An extreme example of this is Huntingdon Life Sciences in Cambridge where the Animal Liberation Movement set up a splinter group called SHAC (Stop Huntingdon Animal Cruelty) which started an international campaign to close the company down, often using ethically dubious methods; threatening employees and employees of shareholders and banks. The opponents of this business understand business and its weak points very well as the company nearly went bust, however, the company changed tactics, the public reacted against the extreme methods of SHAC, and in 2007 reported a 5% increase in profits, leading the managing director to plead with the banks to no longer treat the business as 'radioactive' (Financial Times 16.9.07)

THE RELATIONSHIP BETWEEN BUSINESS AND CONSUMERS

Customer rights - quality, safety, price and customer service were once the most important ethical concerns in business. Now consumers influence business ethics, and have been instrumental in bringing about change: consumers expect businesses to demonstrate ethical responsibility in its widest sense - affecting the treatment of employees, the community, the environment, working conditions etc. Some companies have been the focus of consumer criticism and forced to change their practices - Shell over Brent Spar and Ogoniland; Monasato over GM food; Nike and Gap over child labour. Shell bowed to consumer pressure and did not sink the Brent Spar, and Nike now monitors its factories following the BBC Panorama programme.

One of the first ethical businesses was The Body Shop pioneered by the late Anita Roddick. The company became a great success in the mid 1980's following a change in consumer awareness in how beauty products were tested and began to look for alternative ways. However, an ethical business does not need to be at the level of The Body Shop as even small gestures like participation in community events or collections for charities can improve a company's appearance to consumers.

Consumer action, therefore, can be very effective, as if enough consumers stop buying from a business then the business will be forced to change or go bust. Ethical business practices will give a better image to the consumer and better sales.

THE RELATIONSHIP BETWEEN EMPLOYERS AND EMPLOYEES

Much of the employer/employee relationship now consists of them working together. In 1978 in the UK the Advisory, Conciliation and Arbitration Service (ACAS) was set up to try and create good and harmonious working relationships. It negotiates in disputes, and has been very successful, as there have been few major employment disputes, and ACAS has been able to suggest guidelines for better relationships in most situations.

For employer/employee relationships to be successful there has to be a balance of interests: the employer wants to plan for the future of the business, make profits and keep employees motivated; the employee wants the best possible conditions and living standards. If employees are unhappy there will often be high turnover of staff, poor time-keeping and much absenteeism - as a result of this discontent profits will suffer.

However, relationships between employers and employees do not always work out. The internet now allows for rapid sharing of information across the world - and multinationals operate across the world. There are a multitude of web sites that publicise and discuss the behaviour of businesses. Whistleblowing is now more acceptable - access to secret information is now better and it is even protected by law in some countries. From 'Deep Throat' (the codename of the informant in the 1972 Watergate Scandal) to Dr David Kelly whistleblowers have risked their lives to tell what they perceive to be the truth and to make organisations accountable. Whistleblowers have even gained the respectability of being the subject of a television drama series.

The question of whether or not it is ethical for an employee to blow the whistle, especially in the public domain raises questions of confidentiality and loyalty - there is no simple answer to cover all cases. However, neither confidentiality or loyalty imply that the unethical conduct of others should not simply be reported, especially when product safety or the severe financial hardship of others is concerned. Whistleblowers often risk dismissal and may find it difficult to find similar employment in the future, they may be frozen out or ostracised. There are now organisations to protect whistleblowers such as 'Freedom to Care' which promotes our 'ethical

right to accountable behaviour from large organisations' and that employees have an 'ethical right to express serious public concerns' in the workplace and, if necessary, to go public.

Thought Point

'Business exists to make a profit.' Is it society's task to protect those who are badly affected in the process?

Do you think standards of integrity in business are declining or not? Give reasons and examples.

Do you think workers should participate in management?

Case Studies

1) There are three area managers in a company: Tom; Steve and Tim. Tom was the latest to join the company and has learnt from Tim and from his own observations that Steve is not to be trusted. Steve seems to have no morals and his only goal seems to be his own advantage. He 'manages upwards' always trying to please the director, he lies to cover up difficulties or shortfalls, he tells his staff to take no notice of established policy - but never in writing and never to more than one person at a time. At the same time Steve gives the impression of a straight-talking man of the people.

Tom finds this really hard to deal with but is unsure how to respond. Sinking to Steve's level would not be acceptable, but just putting up with it like Tim does, and Dave's own staff do, really goes against the grain and all that Tom holds dear. How do you accuse a colleague of dishonesty?

- What are the choices facing Tom?
- What principles do you think are relevant when dealing with a colleague of this sort?

2) The head of a department in a medium sized company with a good profit record is 55 years old and has worked for the company for 20 years. He is married with two children at university. His life is his work. However, he is becoming less effective and no longer inspires those who work for him. Several of the brightest young people in his department have left because of the situation.

If you were his boss would you:

- 1 Declare him redundant with compensation?
- 2 Retire him prematurely on a full pension?
- 3 Transfer him to an advisory post?
- 4 Take corrective action and leave him in his job?
- 5 Transfer him to a new executive position on the same pay until he is 60?
- 6 Do nothing or take some other course of action?

Why is it important for a business to behave in a socially responsible manner?

THE RELATIONSHIP BETWEEN BUSINESS AND THE ENVIRONMENT

Environmental responsibility is a vital component of a business strategy as it not only helps the environment, but it wins the trust of communities and gains the respect of the governments of the countries in which the business operates. All businesses impact on the environment: they emit pollution, they produce waste and use resources. Businesses, however, are continually being encouraged to improve their approach to environmental issues. Every year there is a prestigious award The Business Commitment to the Environment Award and in 2007 the Co-operative was one of the winners for its response to global climate change. Some of its efforts for the environment include: the reduction by 86% of its CO₂ emissions, use of 98% green electricity and the ethical investment policy of the Co-operative bank.

However, balancing business growth and environmental quality is always going to be a challenge for business. Businesses are encouraged to have an environmental policy, just as they do for many other issues - again this has often been a reaction to consumer pressure, and also international pressure from organisations such as the World Wide Fund for Nature. UK law and the UN Global Compact also provide minimum standards for how businesses treat the environment, and not only the small but also the large multinational businesses will generally seek to operate within the law to protect their reputation.

Example - The Anglo American Mining Company

Anglo American is one of the twenty largest UK based companies, heavily involved in mining and quarrying - activities which have an immediate impact on the environment. When Anglo American carries out its mining operations it tries to have a positive effect in three areas:

- 1 In the area where the mine is located, it carries out its operations with care and tries to improve the lives of local people, e.g. minimising noise and other types of pollution.
- 2 In the area immediately surrounding the mine, it is active in conservation and improvement.
- 3 In the wider region around the mine, it contributes financially to local communities and helps generate new businesses.

An example of Anglo American's environmental conservation projects is at Tarmac's Langford Quarry in the UK, where the company has created reed beds in streams and ponds surrounding the quarry. Reed beds are an endangered habitat and local people worked with Tarmac to plant the first 10,000 reeds.

Supermarkets have been one of the businesses where the importance of 'green credentials' has become increasingly important. Concerns about 'food miles' and plastic and packaging are growing among consumers. Supermarkets have realised that they must compete on their environmental ethical credentials as well as price, availability, accessibility etc. as all these factors influence where consumers shop. Responding to consumer preferences, helping the environment, profitability and corporate social responsibility go hand in hand.

GLOBALISATION

Globalisation means 'the reduction of the difference between one economy and another, so trade all over the world, both within and between different countries, becomes increasingly similar. This has been going on for a long time, and used to be quite a slow process, but in recent times it has speeded up. The reasons for the increase in the pace of globalisation are:

- 1 Technological change - especially in communications technology.
- 2 Transport is both faster and cheaper.

- 3 Deregulation - increase in privatisation and countries can now own businesses in other countries e.g. some UK utilities which were once government owned are now owned by French businesses.
- 4 Removal of capital exchange controls - money can now be moved easily from one country to another.
- 5 Free trade - many barriers to trade have been removed, sometimes by grouping countries together such as the EU.
- 6 Consumer tastes have changed and consumers are now more willing to try foreign products.
- 7 Emerging markets in developing countries.

All of this means that businesses are now freer to choose where they operate from, and can move to countries where labour is cheaper. This has meant, for example, that much manufacturing has moved to countries such as Indonesia, and many telephone call centres have moved to India.

National borders are becoming less important, as markets stretch across them and multinationals have taken advantage of this. Consumers are alike, but not the same, in different countries, and businesses have needed to consider local variations.

However, globalisation also brings problems - especially those of justice towards poorer countries. Trade between countries is not totally fair, and some of the richest countries such as the US have very strong trade barriers to protect their national interests. It could be said that globalisation means that the interests of the shareholders are more important than the interests of the employees or the consumers, and it means that the poorest people have just 1.4% of the global income. The disaster at Bhopal in India is a prime example, as the chemical companies concerned continued to deny responsibility for a long time, and some survivors still await compensation. Toxic waste still pollutes the environment.

Anti-globalisation movements campaign against the bad effects of globalisation:

- Amnesty International campaigns for a global human rights framework for business based on the UN Norms for Business.
- The WCC campaigns for responsible lending and unconditional debt cancellation.
- There are also campaigns for ecological farming practices, the imposed privatisation of public services, especially water.

In his book *One World: The Ethics of Globalisation* Peter Singer lists the various global problems that we face and challenges us to develop a system of ethics and justice that can be accepted by all people, regardless of their race, culture or religion.

BENEFITS OF ETHICS FOR BUSINESS

One of the main benefits for a business of behaving ethically is that a better image is given to the world at large, and especially to consumers, resulting in greater profit. It also means that expensive and potentially embarrassing public relation disasters are avoided. As far as employees are concerned, if the business is seen to behave ethically, for example with regard to the environment, it will recruit more highly qualified employees, and this leads to better employee motivation as the employees are proud of their jobs.

PROBLEMS OF ETHICS FOR BUSINESS

Being ethical can increase costs for the business, e.g. they have to pay reasonable wages to all employees. If a business is truly putting its ethics into practice it will have to pass on the same standards down the supply chain and this will mean no longer doing business with suppliers who are not prepared to meet the same standards.

However, businesses are products of the society in which they operate, and if society does not always have clear standards, it is not always easy for a business to decide what to do,

e.g. some people in our society are completely opposed to experimenting on animals, but others would argue that it is alright for a business to do so if it benefits human health.

Sometimes a business needs to consider that its role is to make a profit, provide jobs and create wealth for society as a whole, and it may consider that ethics are good if they help achieve these aims, and to be ignored if they do not.

Ultimately to really be ethical a business may have to change its whole business practice and organisational culture.

THE RELIGIOUS APPROACH TO BUSINESS ETHICS

For the purpose of this book a Christian approach will be followed.

The Bible give guidelines that can easily be applied to the ethical issues surrounding business. The Old Testament contains laws and injunctions about the fair treatment of employees e.g. Leviticus 19:13, about justice, honesty and fairness in business: 'Do not steal' and laws about just weight e.g. Deut.25:13-15 - giving the full amount for fair payment. The prophets, especially Amos, spoke out about the unfair treatment of the poor by the rich. People are told to treat others as they would be treated - and in the New Testament Jesus was concerned with not amassing wealth for the sake of it, and sharing with those in need.

In the Middle Ages just price, usury, property and work were the only ethical approaches to business, and it was some time before Christian ethics looked at the real ethical problems facing modern businesses.

Protestant social teaching pulled in two different directions: firstly the individualistic approach was concerned with the individual's calling and personal integrity, so a business man could be praised for his charity; and secondly was the concern about the competitive individualism of capitalism and the great social inequalities caused by capitalism, so social solutions were offered.

Catholic thought was never very individualistic and very early on addressed the problems of modern industrial life. The encyclicals *Revum Novarum* in 1891, through to *Populorum Progressio* in 1967 and *Centimus Annus* in 1991 all recognised the needs of workers, argued for trade unions and for the protection of the needs of poor countries to correct the defects of the world market. The idea of the common good, of solidarity, is a basic value in Catholic social teaching and has led the Catholic church to criticise both communism and free market capitalism which acts against the poor and leads to the selfish pursuit of wealth.

Christian churches have increasingly, as organisations and as individual Christians within those churches, monitored and corrected the harm done by the businesses in which they are shareholders. This has led to changes in behaviour in areas such as environmental impact and marketing practice in the developing world. This role of the ethical investor is not new - in the 18th century the Quakers refused to invest in companies that were involved in slave trade.

APPLYING ETHICAL THEORIES TO BUSINESS ETHICS

Utilitarianism

Utilitarianism considers the majority affected by a certain action - general welfare is important, and this is often seen as good business policy: the general good of the organisation is more important than that of individuals. So, for example, an employee, though qualified for a certain position, will have to give way to another so that the interest of the business as a whole can be preserved. A farmer may have to give up some of his land for a dam project, because it will provide irrigation for lots of farmers and generate electricity for the whole community. However, the best business transactions are the ones in which the best result is achieved, when both business and consumer, employer and employee, shareholders and stakeholders

are considered and benefited. This means that when making business decisions all alternatives need considering - no one can just act on intuition if they wish to maximise utility.

Economically Utilitarianism would seem to be a good ethical approach to business, however, in many cases it is not simple and clear cut. For example, closing a polluting factory may be good for the environment, but not for the local community who may need the jobs. Whatever the business does it is going to upset one group of people or another. Utilitarianism does not always help here.

Kantian ethics

Kant believed that morality, in all spheres of human life, including business, should be grounded in reason. His Categorical Imperative held that people should act only according to maxims that they would be willing to see become universal norms, and that people should never be treated as a means to an end. Kant's theory implies the necessity of trust, adherence to rules, and keeping promises (e.g. contracts). Kant argued that the highest good was the good will - the importance of acting from duty, so, for example, if a merchant is honest in order to gain a good reputation, then these acts of honesty are not genuinely moral. Kant's ethics are ethics of duty rather than consequence: a business behaving morally in order to impress consumers is not truly moral according to Kant. Kant's ethical theory applies well to both employees and consumers as it does not permit people to be treated as means to an end - even if that end is profit. Kantian ethics would also see a business as a moral community - employers and employees, stakeholders and shareholders, standing in a moral relationship with each other which would influence the way they treat each other. This seems to require that the work that employees are given is meaningful, and that businesses should be organised more democratically.

Kant's universalisation means that business laws would have to be universal e.g. no bribery or corruption, and this would have a beneficial effect on international business. However, Kantian ethics has far more to offer to international business ethics as it shows how business can contribute to world peace. N.E. Bowie quotes Kant as saying:

'In the end war itself will be seen as not only so artificial, in outcome so uncertain for both sides, in after effects so painful in the form of an ever-growing war debt (a new invention) that cannot be met, that it will be regarded as the most dubious undertaking. The impact of any revolution on all states in our continent, so clearly knit together through commerce will be so obvious that other states, driven by their own danger, but without any legal basis, will offer themselves as arbiters, and thus will prepare the way for distant international government for which there is no precedent in world history.'

If business (commerce) brings people together than the chance of peace among nations improves. Bowie considers that Kantian ethics has rich implications for business ethics.

Virtue Ethics

Virtue Ethics from Aristotle shows that business cannot be separated from society - everyone is part of the larger community, the '*polis*', the corporation, the neighbourhood, the city, the country or the world and our virtues are defined by that larger community. Business is part of that community. Virtue ethics focuses on the character and motivation of the agent and on the agent's ability to pursue eudaimonia.. Virtue is also learnt through observation of others' behaviour - as far as business is concerned an individual cannot be ethical in a vacuum, but always as part of the ethical community. This applies to the employers as well as the employees who must show the virtues of character such as honesty, prudence, fairness and courage.

The virtues of co-operation seem to triumph over competition, but does this mean that the virtuous person in business will be the good corporate citizen rather than the high-flier, wheeler-dealer or the entrepreneurial innovator?

Virtue Ethics is interested in the most general traits that make a harmonious society possible, so the traits that make for good business must be the same as those of a good society; the virtues of a successful businessman and those of a good citizen must also be the same. In business, as in society, trustworthiness and co-operation are essential; even the most devious business dealings presuppose an atmosphere of trust, and competition is only possible (as in sport) within a context of general co-operation. Business is an essential part of society, not separate from it, and, as in society, living together is central, making a profit is just a means.

REVIEW QUESTIONS

Look back over the chapter and check that you can answer the following questions:

- Explain how consumers can influence business ethics.
- Why is environmental responsibility a good business strategy?
- List the benefits and the problems of ethics for businesses.
- List the strengths and weaknesses of a Utilitarian approach to business ethics.
- How does Kant think business can help world peace?

Essay question

'Kantian ethics is the best approach to the issues surrounding business.' Discuss. (35 marks)
In your answer to this question you will need to explain the main principles of Kantian ethics - e.g. duty, good will, the Categorical and Hypothetical Imperatives - and how they might be applied to business.

It would be better to concentrate on one or two business issues, such as relations between business and shareholders, the question of profit and what business methods could be universalised, the relations between employers and employees, and the importance of not treating others as a means to an end, or your essay may tend to be too much about business issues and not enough about ethical theories.

However, you also need to ask if it is the 'best' approach and this means contrasting it with other approaches (e.g. religious ethics, Utilitarianism or Virtue Ethics).

FURTHER READING

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For those who want to take the topic further than the limitations of A level, I suggest they look at ecological feminism – a good introduction is to be found in Warren, K.

'The Power and Promise of Ecological Feminism' in Sterba, J. (ed.) *Ethics: The Big Questions*, Blackwell, Oxford, 1998.