CHAPTER 1

New Agenda for Business Ethics

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

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

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

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

(1) Business ethics is more than 'applied ethics.' Mainstream economics is nothing more than a strongly normative 'ideal theory' of rational action and cooperation among people. The primary task of an 'integrative' business ethics is to reflect on the form of economic reasoning – it is the critique of economic reason. The history of economic thought reveals the 'emancipation' of economic rationality from moral philosophy, a process that mirrors the historical process of the 'great transformation' described by Karl Polanyi, through which the economy has become disembedded from its social, environmental and cultural context. Today, the problematic consequences of the disembedded and unencumbered economic rationality represent a growing, real-life experience. In this situation, business ethics may fill the gap left open since the classical political economy was reduced to 'pure' economics.

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

(3) The Homo Oeconomicus model states that agents are rational, self-interest-maximizing beings. Overwhelming empirical evidence suggests that people do not just care about their own material payoffs but also consider the interests of others. They are willing to sacrifice their own material well-being to help those who are kind to them and to punish those who are unkind to them. They take into account the well-being of strangers whose interests are at stake. They are also interested in their reputations and care about their self-conceptions. Economic behavior is co-determined by utility calculations and moral considerations. Two major factors can explain the ethicality of economic behavior, namely the moral character of the agents and the relative cost of ethical behavior. Economic agents are essentially moral beings, but it depends on the context that which face of the Moral Economic Man becomes effective.

(4) The relationship between business and society is defined by the distribution of power, control and responsibility. In the case of small firms run by independent owners, relations between business and society tend to maintain a personal character. When some firms gain dominant positions in society the nature of the relations changes. In the late 20th century new and persistent patterns began to emerge: Technological development and institutional changes have weakened the political structures and paved the way for a new expansion of international business. Big corporations are global players and their social responsibilities must be discussed in a global context. The global relationship between business and society cannot be framed in legal terms. Instead, the relationships are of a moral character, based on free will and on a combination of interest and a sense of duty. The concepts of corporate social responsibility and corporate citizenship are subject to new interpretations. The concept of 'society' has to be reconsidered, since the state and other national structures are either too weak or inadequate.

(5) The shareholder paradigm states that shareholders assume the residual risk and are therefore entitled to the residual profit in the corporation. In this view business is nothing more than a set of direct investment projects that converts inputs into outputs and produces cash flow. The virtue ethics approach states that in addition to competition and profits, care for the environment, the health of the employees and well-being of the customers should be included among the objectives of the company. This requires virtuous behavior from managers who must transcend the perspective of pure economic interests.

(6) The business stakeholder model is built on two dimensions, the instrumental and normative approaches of the firm toward stakeholders. The Neutral configuration, conforming to the established business paradigm where stakeholders are considered 'non-existent,' adopts the traditional principal-agent relationship between owners and managers. The Pragmatic configuration recognizes stakeholders, but only insofar as they serve the needs and purposes of the firm's owners; again with an agency relationship existing between owners and managers, but with an emphasis on a harmony of interests between them. The Engaged configuration is a synthesis of the normative and instrumental approaches, with a stewardship relationship operating between owners and managers as they strive to marry all stakeholder interests with wealth creation for

shareholders. The Idealistic configuration is basically normative, where the firm is seen as existing for all stakeholders and the role of management is to ensure that all stakeholders are taken into account, even if this sacrifices the owner's wealth creation.

(7) Using Ronald Coase's theory of the firm as an analytical framework, fundamental dilemmas that corporations are confronted with can be examined. Running a business requires dirtying one's hands because the corporation typically encroaches on the legitimate interests and expectations of its stakeholders in order to realize other legitimate interests and expectations that are seen as more important for keeping the corporation afloat. In many instances, corporate responsibility cannot be traced back to the sum of individual responsibilities. Responsibility is difficult to trace back to its components. Hence the many-hands dilemma emerges. For a corporation to function it must delegate its responsibilities. As these responsibilities are delegated, the chance that people will behave irresponsibly increases. The corporate dilemma of entangled hands is unavoidable because the employees have their own private responsibilities and interests, and these are frequently at odds with the interest of the corporation. Business ethics should develop criteria which correspond to the conditions under which corporations function.

(8) Corporate transgression is a well-known phenomenon in today's business world. Some corporations are involved in organizational practices, or in the creation of products, which are in violation of laws or moral rules, and this ultimately takes a toll on the public. The social cognitive theory of moral agency provides a conceptual framework for analyzing how managers adopt socially injurious corporate practices. There are a number of disengagement mechanisms employed in cases of corporate transgressions. They include moral justification, euphemistic labeling, advantageous comparison, displacement of responsibility, diffusion of responsibility, disregarding or distorting the consequences, dehumanization and attribution of blame.

(9) Business ethics provides strategies to counteract organizational use of moral disengagement strategies. One approach is to monitor and publicize corporate practices that have detrimental human effects. Another approach is to increase the transparency of the discourse through which corporate policies and practices are born. Instituting clear lines of accountability curtails moral disengagement. Exposing sanitizing language that

masks reprehensible practices is still another corrective. The affected parties need to be personalized and their concerns publicized and addressed.

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

(11) Sustainable development is a fundamental objective that requires dealing with economic, social and environmental dimensions in a mutually reinforcing way. An ethical company has to pursue the overall objective of sustainability. At the corporate level, sustainability means the capacity of an organization to continue its activities for a long time, taking into consideration their impact on the natural, social and human capital. In order to pursue the objective of sustainability, companies have to develop an integrated information system that monitors and evaluates the economic, social and environmental dimensions of their performance.

(12) In order to evaluate the ethical quality of the market it is indispensable to consider and integrate contexts; that is, contexts pertinent to the social, ecological, political and cultural conditions under which markets are working. An ethical view of markets has to analyze the normative element of the market and make transparent the quasi-ethical, ideological or even quasi-religious elements of economic reasoning. Such an integrative analysis leads to more differentiated foundations and a new emphasis on economic policy and may contribute to filling the ethical vacuum of contemporary market societies.

(13) To overcome anarchy in the international economic system some global governance is needed. This means developing efficient international institutions, utilizing the pressure of global civil society, and reinforcing the self-regulation of business. Multinational companies have the duty of cooperating in governance systems. They also have the

duty of reconciling universalism and cultural relativism in their daily activities; i.e., of applying universally valid ethical principles and respecting authentic local moral norms. Multinationals must be guided by their enhanced responsibility both at home and abroad.

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

(15) Values-based leadership has demonstrated its viability and has become a top managerial strategic issue. After a decade of enthusiasm it is now entering a new phase, characterized by new challenges to leadership and employees - and to the whole notion of what a corporation is and what it stands for. There is a long way to go before the good intentions culminate in truly values-based organizations. We should emphasize the gaps apparent within three central concerns: (i) the distance between rhetoric and practice, (ii) the distance between top management's perceptions and those of the foot soldiers, and (iii) the distance between the standard economic value paradigm and the paradigm which is emerging from the whole debate over ethics and corporate responsibility. Values-based leadership will become both a key concept in corporate strategy and a vital asset for organizational action at all levels.

(16) The moral foundation of capitalism should be reconsidered. Modern capitalism is disembedded from the social and cultural norms of society. The market fundamentalism – the belief that all kinds of values can be reduced to market values, and that the free market is the only efficient mechanism, which can provide a rational allocation of resources – should be abandoned. We should find substantive value-backgrounds to develop alternative views on economic activities. For example, the economic teachings of world religions have a great relevance to the renewal of economizing. Among other world religions Judaism, Catholicism, Buddhism and Taoism proclaim life-serving modes of economizing which

can ensure the livelihood of human communities and the permanence of natural ecosystems.

(17) The principles of conserving and enabling call for a deep transformation of business. Business should contribute to the conservation and restoration of the ecology of the natural world and should contribute to the enhancement of the capabilities and self-development of people. Business ethics and the future of capitalism are strongly connected. If we want to sustain capitalism we have to create a less violent, more caring form of it.