PART I

The ethical framework

Introduction

There is something curiously bleak about the word 'ethics': it suggests a brake on natural exuberance, the substitution of what we ought for what we want and, above all, seems to threaten a largely academic discussion of moral philosophies. When used in relation to business it is particularly confusing as what ethical analysis can offer to business practice is not immediately apparent. Philosophers may be fascinated by the competing claims of deontological (i.e. rule-governed) theories and utilitarian (i.e. happiness-maximising) ones: this book is not for them. It is for the student of business rather than the student of philosophy, and for those who are trying to decide what to do for the best in the real world. It sets out to present a practical ethical framework which is clearly relevant to the moral dilemmas of business.

This scenario, however, assumes that business people will accept the general principle that an ethical framework of some kind has relevance for business. This is not necessarily the case, for there is often a feeling, among managers and others, that business is about making profits and ethics is about being good and, realistically, never the twain shall meet. Being a tough-minded manager implies that there's no time for the ethical niceties. There is sometimes also a deeper suspicion among managers that calls for value statements in business or the demand for more ethical business practices are really just a thinly disguised anti-capitalism or a generalised complaint against business and its aims and aspirations by those who disapprove of the profit motive or of market mechanisms.

Again, the currently fashionable talk about the 'social responsibility' of business has been seen by some managers as an attempt to force business to take on the role of government: to protect the environment; to regenerate the inner cities; to deal with everything that is wrong with society, from educational deprivation to racism.

I shall argue, however, that business ethics properly understood is neither anti-business nor anti-capitalist in its inspiration and operation. It is not a supercilious attempt to identify the pathologies of modern corporations and put them right with simplistic solutions; nor is it the instrument of devious government desires to offload its own social responsibilities onto business. Rather, it is a way of approaching business decisions systematically; seen in this way, it is quite simply a tool for helping managers to make choices that are often difficult. It involves articulating a coherent set of values for a business and trying to set decision-making within the context of these values. It is in this sense as fundamental to the running of the business as proper management accounts; without either, there is no direction and there are no controls; the business is running blind.

Business ethics is thus a branch of practical ethics. It is a relatively new area of study in this country and is consequently in the process of developing both a language in which its practitioners can communicate unequivocally and a theoretical framework within which business activity can be analysed and which will aid decision-taking. The tendency thus far has been to look to moral philosophy's classical theories – like Kantian deontology and Utilitarian rationalism, or their modern manifestations, to provide such frameworks. These theories are, however, concerned primarily with personal ethics; they do not address directly the kind of ethical problems that arise within a business context. Attempts to apply them to business have therefore not been entirely satisfactory. What I want to suggest here is at least the beginnings of a rather more focused framework, starting and emerging from the nature and aim of business itself.

A decision model for business ethics is undoubtedly a highly ambitious enterprise but if it begins to set some theoretical parameters, however imperfect at this stage, it will be worth while.

WHY ETHICS NOW?

It has been suggested recently that 'business ethics' is just a passing fashion a bit like muesli and jogging, which will come and go and can therefore be safely ignored or dismissed. Similar claims are made about, for example, corporate identity and total quality, which are regarded by some as little more than slick marketing moves by which companies sell themselves, internally and externally, as approachable, concerned and responsible. It is, however, no accident that businesses are increasingly searching for ways of relating to their staff and customers and, although my argument in this book is that there is a permanent and irreducible moral dimension to business decisions, there are historical reasons why interest in business ethics is particularly strong now.

Since at least the 1970s, questions about corporate governance, that is, the way in which business is organised and held responsible, have been raised. In the process, sometimes directly, sometimes indirectly, discussion has centred on the place of business in society. In the past, this was largely taken for granted: business existed to contribute to economic growth and the creation of higher living standards. But as growth itself ceased to be a superordinate goal and, indeed, has been challenged by some as a goal at all, so the aims and purposes of business have been increasingly debated. The Bullock Report, as long ago as 1977, raised the whole question of industrial democracy, of who ought to have power, from whom, to do what in organisations.[1] It proposed that employees should be represented on the boards of companies and, although this was rejected in many quarters as a negation of the principle that boards should be unitary rather than collections of representatives of different interests, it encouraged discussion of the role of employees, their rights and duties.

Slightly earlier, the Watkinson Report for the CBI marked a watershed in thinking about the role of business in society and, in effect, challenged both business leaders and legislators to rethink out-of-date legal and corporate structures.[2] Companies should be encouraged, the report said, to recognise duties and obligations not only to shareholders but to employees, customers, suppliers and society at large. This identification of the many constituencies of companies, of what have come to be called their stakeholders, was crucial to the later emphasis on social responsibility.

[1] Committee of Enquiry on Industrial Democracy (The Bullock Report) Cmnd. 6706, 1977.

[2] The Responsibilities of the British Public Company, CBI Company Affairs Committee (The Watkinson Report), CBI, 1973.

Across the Atlantic analysis of the social position of American companies was already well advanced. In a speech at Harvard Business School in 1969, Henry Ford II said: 'the terms of the contract between industry and society are changing . . . Now we are being asked to serve a wider range of human values and to accept an obligation to members of the public with whom we have no commercial transactions.'[3]

At the same time, British business began to realise that it lagged behind much of Western Europe in its views of company obligations, especially to employees. The rights of employees, particularly to information about their company, had been emphasised by both Watkinson and Bullock and were progressively incorporated into legislation thereafter. It was later extended to include the general interests of employees.[4]

In addition, the enormous volume of recommendations, directives, codes of conduct, etc. which were beginning to emanate from the Commission of the European Community provided another set of parameters to be considered in the reassessment of company roles and responsibilities.[5] The impact of consumerism, environmentalism, feminism and anti-racism was increasingly felt by British business. Such concerns had begun as marginal interests pursued by what could comfortably be dismissed as lunatic fringes and which business could largely safely ignore. By the 1980s, however, organised consumer power was clearly here to stay, 'environmentally friendly' products were big business, and firms were competing to show that they were equal opportunities employers.

At the end of 1989, the European Commission adopted the action programme of the European Social Charter. Under this programme, the Commission is drawing up directives, which have the force of law in the member states, concerning, among other things, health and safety at work, contracts, local employment, and women's employment.[6] The Commission is keen to advance what is now being called the 'People's Europe' and

[3] Quoted in T. Donaldson, *Corporations and Morality*, Prentice-Hall, 1982, p. 36.
[4] See The Company Act, 1985, section 309.
[5] For a taste of the scope of EC involvement with business practice see e.g. *Operations of the European Community concerning Small and Medium-sized Enterprises*, Office of official publications of the EEC, 1988.
[6] See e.g. report in *Women of Europe*, no. 62, November–December 1989, p. 3.

although this does not have the unqualified support of the governments of all member states, many of which dislike centralised legislation and fear the costs, both social and financial, of radical change, it continues the trend of involving business in wider social issues. In Britain, the Conservative government's Citizen's Charter indicates the extent to which even the political party which has opposed interventionism in the past has changed in response to changing social attitudes and priorities.

From 1992 with the advent of the single market in Europe, employers must, whether they like it or not, take account of common standards on everything from working practices to the environment.

The political climate of the 1980s in Britain involved a self-conscious rolling back of the boundaries of the state. Government, which since the nineteenth century had been expanding its areas of involvement in the life of the individual and the corporation began, in many areas, to disengage. The political philosophy of the Thatcher years was one of self-help, enterprise and corporate citizenship. This latter suggested that business, particularly big business, could and should shoulder some of the responsibility for training, social programmes, financing of the arts and so on. Business felt unable to refuse. Thus Peter Morgan, then of the Institute of Directors, felt that 'the government has challenged enterprise to take on active corporate citizenship'.[7] In similar vein, Sir Adrian Cadbury, talking about the social responsibility of companies, sees large organisations as 'capable of changing the societies in which they carry out their business, for better or worse [and] governmental goals can often only be achieved through the cooperation of companies'.[8]

In one sense, this political culture encouraged companies to look out to the wider community and determine their responsibilities there. Read in another way, however, its rejection of 'dependency' and the emphasis on self-reliance and personal achievement in the enterprise culture gave rise to a new breed, the yuppies, a new vocabulary of 'golden hellos', 'loadsa money' and, according to the movie *Wall Street*, businessmen with 'ethical by-passes'. The reaction against the 'greed culture' was not long

[7] Interview with Peter Morgan, *Director*, July 1989, p. 50.
[8] Sir Adrian Cadbury, *The Company Chairman*, Fitzwilliam Publishing, 1990, p. 147.

in coming. It was parodied by one commentator in his suggestions for some new Beatitudes:

Blessed are the predators, for they shall inherit the earth.
Blessed are they which do hunger and thirst insatiably, for they shall be filled.
Blessed are the merciless, for they shall obtain their quarry.[9]

In similar mood, *The Economist* warned of a 'backlash against business', suggesting that, in the 1990s, 'the business ethic is going to be questioned, criticised, sometimes even vilified'.[10] Rejection of what were perceived to be the attitudes and values of the enterprise culture was reinforced by reactions to the various business scandals of the late 1980s such as Guinness, Blue Arrow and Barlow Clowes. The storm of indignation they provoked, not necessarily always well informed, nevertheless made business aware of its own precarious reputation and of the need to think seriously about ethical issues.

In addition to such negative pressures on business to put its house in order were social and organisational changes which encouraged companies to take a long hard look at their aims and their attitudes to employees, customers, the environment and their shareholders. Charles Handy talks about the development of flatter corporations, where layers of management have been cut out and where authority is devolved to the lowest possible level.[11] In this kind of structure, employees need to have a clear understanding of the ends and aims of their organisation and a strong sense of shared values, which can only be achieved if ethical questions have been addressed directly and openly.

In another sense, too, concern for employees is not a matter of altruism on the part of companies today. British industry is facing in the 1990s the results of the largest fall in the birth-rate this century. Between the mid-1960s and 1970s, it fell from over a million to around 700,000 a year as more couples delayed starting families or decided to have only a single child. The pill, the more liberal abortion policy introduced by the 1967 Abortion Act, and changes in women's lifestyle and working patterns

[9] Andrew Phillips, Opening Address to the International Conference on Business Ethics, 'A Question of Values', Wolfson College, Cambridge, July 1989, *Proceedings*, p. 12.
[10] *The Economist*, 15 April 1989, leading article.
[11] Charles Handy, *The Age of Unreason*, Century Hutchinson, 1989.

have all contributed to births for some time now being below replacement (about 1.7 where replacement is 2).[12] By 1995, it is estimated that there will be 1.5 million fewer 16- to 24-year-olds and employers will be facing a recruitment war. Business is well aware of this development and many employers are already setting out to attract the best of the available talent.

One of the ways in which this can be done is by taking account of what people are looking for in a job and this seems to be as much or more to do with the ethos of the firm as with pay and conditions. People, especially the young, are apparently rejecting, if indeed they ever really espoused, the self-advancement culture of the past ten years. Employees, perhaps not unnaturally, want to feel proud to be a part of the enterprise for which they work, to feel that it is admired and respected, which in turn makes them feel good about themselves.[13] A recent survey of job factors which were selected as most important by employees in Britain found that top of the list came being treated with fairness and respect. Pay came only fourth.[14]

If all these trends and tendencies were not enough to encourage business to look more carefully at how its commercial aim could best be achieved, the views of shareholders themselves might have encouraged it to do so. Milton Friedman's assumption that what stockholders want is for the company to make as much money for them as possible is not necessarily backed up by business experience. As one company chairman says, 'In practice . . . shareholders have differing views on how companies should make money and on how they should distribute it. Their objectives differ and they are not confined to furthering the strictly economic role of companies.'[15] Indeed, recent developments in the area of ethical investment trusts would seem to indicate that many investors, like employees, are very keen to feel good about the firms in which they are involved. Certainly not all of them are simply after a quick financial return and they are often clear about the areas – like tobacco, alcohol, gambling, or arms – into which they do not want to put their money.

[12] *Social Trends*, 19, 1990, HMSO, 1990.
[13] S. Carmichael and J. Drummond, *Good Business*, Business Books, 1989, pp. 5–6.
[14] *Training and Development*, *Journal of the Institute of Training and Development*, November 1990, p. 20.
[15] Cadbury, *The Company Chairman*, pp. 145–6.

And if this is the negative side of shareholder attitudes, the positive is shown by the large measure of acceptance for 'corporate giving'. Barclays Bank, for example, was the object of a prolonged public campaign to have it cease doing business in South Africa. Students protested, accounts were closed and shareholdings sold. In 1986, Barclays got out of South Africa saying, 'Our customer base, particularly in the United Kingdom and the United States, was beginning to be adversely affected by our minority holding in Barclays National.'[16] At about the same time, Barclays joined the Percent Club, the organisation of leading British companies which contract to give 0.5 per cent of their profits to fund community projects. No shareholder has yet objected to this company policy.

All of these influences – from the impact of European Community legislation to the demographic imperatives – have conspired to encourage business now to look long and hard at ethical issues and priorities. This is not a preoccupation that will go away and it is therefore important that the ground on which discussion proceeds is at least staked out. Otherwise, we may all waste much time and effort reinventing the wheel: and we will, in any case, have no common language in which to communicate or common framework in terms of which to proceed.

What follows is a beginning only: it is an attempt to outline a business ethic based not, like the classical theories of moral philosophy, on notions of personal self-development but on the idea of business itself. If this at least recommends itself to business's practitioners as a suitable place to start, and allows them to see the relevance of practical ethics for their own experience, it will have served its purpose. It will then be up to them to take it forward in their business lives.

[16] Annual report and accounts, Barclays Bank, 1986. Statement by the Chairman, Sir Timothy Bevan.

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The ethics of business

> The secret of life is honesty and fair dealing. If you can fake that, you've got it made.
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> (Groucho Marx)

> He was as great as a man could be without virtue.
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> (Lord Acton on Napoleon)

WHY ETHICS?

People in business make decisions every day which affect the rights and interests of others, both those within the business and those outside. Rights and interests are the basic stuff of ethical debate. Such decisions are made on the basis of assumptions – about the business's aims and aspirations; about what is owed to other people; about underlying values and direction. It is one of the central arguments of this book that it is better that such assumptions be made overt, so that they can be acknowledged and argued about, rather than remaining unspoken and therefore unchallenged and undiscussed.

It is sometimes suggested that business decisions are technical decisions, that is, that they are taken in the light of specific information which can be processed by means of modern business methods to give specific answers to questions of investment, divestiture, etc. On this view, financial techniques such as establishing an internal rate of return (IRR) or a pay-back in effect make the decision for us. Ethics is at best redundant, at worst misleading, diverting business from its real task of maximising profits. Yet almost all business decisions are more complex than this would suggest. They involve calculations not only of return on investment but of effects on employees, customers, the community, the environment – none of which can be reduced to simple algebra. The case for shutting down a particular operation