

Business Ethics: boardroom pressures in an age of moral relativism

Ian Eddington, John Searle and Richard Temple Smith
Australian Graduate School of Business
University of Southern Queensland
Toowoomba Q 4350
Australia

eddington@usq.edu.au, jsearle@usq.edu.au and temple@usq.edu.au

Abstract

Company law requires boardroom decision making to be parochial but boardrooms are pluralist by nature. It is argued that the way business is done, business contexts and strategic decision making do change over time. Factors bearing upon boardroom behaviour include *inter alia* preferences for the firm to act or to be seen to be acting in a socially and environmentally responsible manner; that is, to act ethically.

It is argued that conditions are favourable for the emergence of a more widespread pursuit of social and responsible business within a safe and civil society. Forces driving this emergence are discussed and barriers to its progress are outlined. Challenges for the theory of the firm are raised also.

Citation: Eddington, Ian and Searle, John and Temple-Smith, Richard (2004) 'Business ethics: boardroom pressures in an age of moral relativism.' In: Ogunmokun, Gabriel and Gabbay, Rony and McPhail, Janelle, (ed.). *Conference Proceedings: 2004 Inaugural Academy of World Business, Marketing and Management Development Conference*, Academy of World Business, Marketing and Management Development, pp. 1336-1347.

2004 Inaugural Academy of World Business, Marketing and Management Development Conference, 13-16 July 2004, Gold Coast International Hotel, Queensland, Australia.

Accessed in USQ ePrints

Business ethics: boardroom pressures in an age of moral relativism

1.0 Introduction

In an age of post modern, moral relativism where ‘anything goes’ it could be suggested that boardroom values are becoming less plural and that decision making might become more parochial in order to enhance the bottom line; but this does not seem to be the case. There is mounting evidence that within the boardroom the ambit of corporate responsibility is expanding and deepening to embrace the social and environmental objectives that are emerging in the wider community.

This paper takes as given (a) that social and responsible business behaviour is essential for a humane society and (b) that under conditions of enlightened political and boardroom leadership in a civil society, reputable business management can be expected to prevail and a unified and beneficial global approach to matters of environment in civil society ought to emerge.

Several promising examples of an emerging civil mindedness have occurred at national and international levels and it is difficult to imagine what the consequences of these examples might be for the corporate boardroom. However, change is contagious and individuals in corporate leadership positions are mobile between government, non government organisations (NGOs), and the private sector.

The difficulty humans have in acting ethically or, in Aristotle’s terms applying “*right reason and correct desire*” is problematic in all societies and has been documented for over two millennia. However, the paper’s main intent is (a) to argue in a general manner that conditions are very encouraging for the widespread emergence and success of ethical business behaviour as evident in Safety Health & Environment (SHE) initiatives and (b) to discuss the potential challenges such an emergence may confront.

In section 2 of the paper a context is presented for the emergence of ethical firm behaviour in the increasing recognition given in boardrooms to SHE matters. Questions about the strong emergence of the SHE business thrust in an otherwise morally relativistic world are also raised in this section. In section 3 a descriptive account of developments that are likely to encourage desirable SHE practices is provided, while in section 4 possible impediments to the adoption and success of SHE management practices are introduced. Section 5 raises challenges posed by such ethical behaviour for the theory of the firm, while conclusions are presented in the final section.

2.0 Context and background

Boardrooms mostly perceive safety, health and environmental (SHE) matters as restraints on their capacity to maximise shareholder value. Some more enlightened boardrooms go beyond a simple interpretation of the bottom line and regard SHE matters as opportunities to differentiate their corporate images.

In any case, SHE matters on the boardroom agenda provide opportunities for firms to demonstrate their concern for the broader community. Where resolutions relating to these agenda items favour community interest over the firm's own interest, the firm has clearly placed short term maximising goals second to its longer term interests. Alternatively, the firm's resolution may reflect its perceived role as a good corporate citizen and may not reflect any significant longer term search for corporate gain. Porter & Kramer (2002) would probably suggest that there is no difference between these last two decision motives, as both fit within the category of corporate philanthropy, a legitimate corporate activity with associated payoffs.

It is admitted that, on the surface, examples of enlightened political and boardroom leadership often appear rare and difficult to find. Nevertheless it appears that enlightenment happens, that it can be nourished by education for "*right reason and correct desire*", however slow this may be, and there is always enough of it about to ensure rewarding outcomes for those boardroom members involved and the wider community.

In spite of the moral relativism of the present age, the SHE agenda has progressed steadily, and because of its tangible nature, has driven a shift towards broader boardroom responsibility. Three points may be made: (1) today SHE concerns are at the centre of third wave environmentalism and *Agenda 21* globalisation, (2) there is also evidence of the emergence of a *purposiveness* towards others of the kind predicted by Keynes in 1928 even though, generally, it is being driven by different forces than the ones he stated, and (3) although the SHE agenda is essentially ethically driven, it is expressed in the factual knowledge of standards and codes.

3.0 Encouraging developments for the widespread emergence and success of social and responsible business management

A number of developments that are combining to create conditions favourable for social and responsible business are described briefly below.

3.1 *Agenda 21*, the Rio Principles and the market ownership of health, environment and respectability: under these drivers business is charged with bringing health and prosperity to the underdeveloped world – a market led prosperity based on stewardship and sustainable development. Treasuries, Ministries, Taxation Regimes and Intergovernmental Organizations are charged with financial, infrastructure, knowledge and values facilitation of this "business led" stewardship. Indeed *Agenda 21* has been adopted by powerful organisations like the World Bank. The lag from Johannesburg to the next World Summit is put at 10 years instead of 5.

3.2 The waning of Chicago School (Friedman) polemic: that markets do fail is now again more widely acknowledged. That markets sometimes do not spontaneously appear, but can so do with a little intervention, is now again admitted. Questions of value are no longer hidden under the rubric and conduct of the invisible hand and even from the beginning Smith (1759) had a lot more to say about moral sentiments than is generally acknowledged. Humanity acknowledges a much more sophisticated and exotic basis for its values deliberations than that implied by microeconomic theory. This rediscovered acknowledgement is driving a more ethical approach to profit taking and raises questions about the validity of the theory of the firm.

For example, according to Porter and Kramer some leading businesses are attuned to this shift. In a discussion about corporate philanthropy they explain why Friedman's dictum that "the only 'social responsibility' of business is to increase its profits" is now passé. Friedman is said to base his argument in two assumptions: (1) that social and economic objectives are separate, one coming at the cost of the other and (2) that corporations, when they spend on social objectives, provide no greater benefits than were the spending to have been made by individuals allocating their own income.

Porter and Kramer (2002) claim that these assumptions are false, when corporations spend philanthropically on promoting '*competitive context*' - defined as "the quality of the business environment in the location or locations where they (the businesses) practice" (p. 6). Whilst the final cause of *competitive context* spending is not far removed from profit maximisation, such spending is a decidedly social and responsible means to business ends. It is innovative business thinking, which is compatible with *Agenda 21* because it aligns long-term business prospects with socio economic goals. The authors cite *Cisco Systems, American Express and Grand Circle Travel* as firms introducing this innovation.

3 3 The capitulation of the command economy, truancy of welfare state thinking, and the social security requirements of the *do it yourself* state: in the years before, during and after *Agenda 21*, state and business ideology swung generally away from the command economy towards free enterprise. In this period, in developed economies, some governments divested much of their responsibility for social welfare whilst others preserved the status quo. It is acknowledged, of course, that social welfare systems of any kind are mostly beyond the reach of many peoples. Superannuation fund investing for future social security began to replace government funded pension schemes and governments, through the enactment of enabling legislation, helped firms embrace responsibility for their own health and safety and fiduciary responsibility. Through *Agenda 21* protocols, firms were also charged with developing markets in underdeveloped countries and to promote welfare (and thus their own business profit making potential) through such activity.

All this responsibility has begotten some conservatism in society and business. A new perception has emerged which understands that to tolerate corrupt, inefficient and socially irresponsible managerial and boardroom practice is very much to rob oneself

(rather than government and others) of profits now, and in the future superannuation dreamtime. This perception has been heightened recently by major business scandals that strike at the heart of confidence in the capitalist system. There is an increasing willingness for business to build its own welfare system (and thereby its continued existence and future profitability) and an increasing awareness that honest, social and responsible business is pivotal to this kind of social security. Anything less than social and responsible business is free riding and cannibalisation of a social security system based on private sector investments and clean, public and business institutions. New fiduciary safeguards are being developed and applied. Business is being forced to invent its own welfare system in which, inter alia, CEO ethics and managerial behaviour are under increasing scrutiny. Of course there is a long road to travel and of course some roads are circular.

3.4 September 11 trickledown: one “positive” legacy of 9/11 results from the subsequent increased scrutiny of state, business and social institutions. New tools and techniques are being developed (and existing ones improved) to deter terrorism. In the current situation, societies appear to be willing to trade off an imagined small amount of civil liberty in favour of a big amount of terrorist free peace of mind. And therein (combined with commercial incentive) is the window of opportunity for the trickledown to commercial invention and innovation being spoken of here. Some of this invention may also have big implications for small and medium sized businesses and indeed the individual workers and managers themselves.

3.5 UN intergovernmental agencies and other key institutions: such as the United Nations (UN), the International Labour Organisation (ILO) the World Trade Organisation (WTO) and the World Bank.

The UN (ILO/WHO/UNCED) brokerage of the Second and Third wave SHE phenomenon is recalled here. First SHE conferences focussed on and successfully promoted the establishment of government agencies and laws. Second conferences focussed on, and successfully called up, the creation of SHE strategies for government agencies, ministries, and taxation authorities to implement. Present conferences direct political conscience and treasury spending towards the market ownership of welfare and the market led growth of sustainable development in both developed and underdeveloped countries alike. Of course welfare state activity also continues.

The World Bank (<http://www.worldbank.org>) is quick to point out that it is an institution dedicated to *poverty reduction* guided by *international development goals*, which mission it affects through a business approach. The Bank’s criteria focus on, *inter alia*, public sector governance, education, health, empowerment, security, social inclusion, post conflict reconstruction policy, environment and poverty reduction potential, high impact status of investment, promotion of competitiveness, and relevance to/impact on communicable disease, environmental commons, trade and integration, information and knowledge and international financial infrastructure. The bank attempts to leverage these beneficial values, claimed now as third wave values, as its part in *Agenda 21*

development. Even actualisation of a small portion of such official rhetoric could be expected to bring benefits.

Social justice and peace, together with prosperity and profitability, are central to newfound meaning in the WTO (<http://www.wto.org>) and the World Bank .

Generally, negotiations concerning SHE/HE and trade are prescribed by the WTO's "green" provisions. These include *Article 20* of the GATT, technical barriers to trade, including product and industrial standards, agricultural programmes exempt from subsidy cuts, countervailing allowance subsidies for the adoption of new environmental laws, intellectual property (TRIPS) concessions allowing the refusal of patents that threaten human, animal and plant life or risk or damage to the environment, and GATT's *Article 14* exemptions for services trade protecting human, animal and plant life or health.

But, should organisations ever be trusted? Can one draw a big enough breath? Has it been naïve here to trot out mission statements and the like in support of this paper's position that conditions are right for the emergence of social and responsible business including reputable business management? There are many signs that progress has been made.

Mission statements and ethical organisational behaviour: mission statements, declarations and the like are the linchpins by which organizations can be called to conscience. The NGO's have played a part in this as examination of the work of groups like *Oxfam*, *Transparency International*, *The Demos Foundation* and the *World Economic Forum* will reveal. Mission statements and the like also guide action and provide a rallying banner for internal reform often undertaken in hard times by special individuals or groups. Mission statement ideals can become enshrined in institutional rules and procedures which, through time, can become increasingly transparent, and effective against misuse, and also serve in the ongoing leveraging of better performance. Individuals, companies and states can also get around rules but because rules are rules the act of doing this invariably exposes the motives and sometimes the horribleness of those breaking them.

3.6 The (NGO) phenomenon: there are some 40,000 NGO's in existence (Giddens, 2003). It is recognised here that a range of motives will inform the behaviour of NGO's enjoying observer status at meetings held by the UN and other organizations like the WTO and the World Economic Forum. However, there are also NGO's that are leaders in change. For example *Transparency International* (TI) (<http://www.transparency.org/>) and its association with the UN's *Global Programme Against Corruption*, the *OECD* and the *World Economic Forum*. In its *Global Leaders for Tomorrow* program the latter speaks of actioning the *Global Sustainability Index* and of establishing indices to measure *World Trust* in key institutions. There is also talk of establishing a business orientated version of the *Hippocratic Oath* but some might say if the doctors are to be taken as an example, why bother. This attitude is perhaps a little too negative. The *Global Leaders for Tomorrow* are a group among whom "there is a growing rapport and understanding due to the common phenomenon of working across sectors during the early course of their careers. Economic and social return are no longer their sole drivers or expectations.

Rather, in best cases, they share a common set of commitments to higher ethical standards in business, governance and social activism” (World Economic Forum, 2003).

3.7 The law and international standardisation and management systems: both duty of care and due diligence have been instrumental in founding the modern/post modern SHE phenomenon and continue to have wider implication at torts for social and responsible business. Although international law relies heavily on cooperation, nations have shown that they can cooperate when conditions are right. The speedy resolution of Ozone regulations is an example even though an illegal market on banned substances is said to operate. “International” law is also evolving by other routes; for example, when aggrieved foreigners prosecute in other than their own jurisdictions, or when foreign illegal persons access the legal system of their temporary country of residence. Some nations are extending their own law beyond national boundaries. For example, in the case of paedophilia, some countries make it illegal for a national to commit an act in a foreign country that is illegal at home. This principle could spread to other areas, especially where international standards are clear and agreed upon. International SHE standards are increasingly packaged as integrated management systems that include education and quality dimensions. There is also ongoing research in universities and elsewhere in exploring ways to integrate ethical behaviour rows/columns into the management systems matrices. Finally, in the so-called knowledge economy, the smart firm can sometimes “learn”.

3.8 Rejection of moral relativism: moral relativism can be many things - a comfortable panacea for inaction, a thicket in which the most partisan and divisive practices can be disguised and pursued, or even something of an oil on troubled waters if it is based on genuine respect for differing value systems. The whole question is complex but there is no doubt that when humans make decisions a ranking of values is involved. It is being claimed here that more and more people are taking decided positions on many issues, the eradication of poverty, improved social justice and the fight against corruption in government and industry being paramount among them. To give an example: Davos, (the World Economic Forum) attracts large numbers of people and has its eminent persons, NGO, Ministerial and public domain entourages. The World Social Forum set up as an alternative to the World Economic Forum does much the same. But it is less exclusive and more voluntary and appears to equal or better the World Economic Forum in numbers.

In summary, there is some evidence that there is something of a more concerted and genuine search for social and responsible business and safe and civil society at work in the world. The forces driving this search seem to be a mixture of economics, self interest and ethics.

Unfortunately, it is difficult to accurately test the extent of this concerted search for social and responsible business and safe and civil society in the boardroom because of demands for confidentiality and likely bias in the reporting of its occurrence. However, firms’ responses to the community’s insistence for them to act responsibly have probably led a

good many firms to seek ISO14000 accreditation and for firms to avoid being placed on the 'black lists' of environmentally and safety conscious monitoring organisations. Identifying trends in ISO14000 accreditation and the tracking of the composition of such black lists may provide fertile ground for future researchers in this area to test trends in corporate responsibility.

4.0 Potential challenges to the emergence of social and responsible business management

There are barriers to the emergence of social and responsible business management. These are discussed generally under a broad classification system. The classification employed is non-rigorous, arbitrary and mutually non-exclusive. The word *reform* is used here to summon up the idea of the *genuine*, rather than *change* itself spun as reform.

4.1 Intellectual-technical barriers: human reason must struggle to order, rank, subdue and then guide the eros, power and acquisitiveness disturbances (and energies) of the sense-intellect divide. In this process it seems that human reason must be informed by a kind of noetic understanding of the good, the just and the decent.

Apart from the wilful sabotage of reform there appear to be, for want of a better name, intellectual-technical or socio-intellectual barriers to change. Barriers of this kind relate to the difficulty humans face in changing their mental frames of reference and to joining or leaving groups. These barriers have been explored by Kuhn (1979) in his theory of the process of paradigm shift and by Oakeshott (1933), (1962) in his work on multiple voices. They are also dealt with in a different way in constructivism. The overthrow of a dominant voice or paradigm even when this voice is not malevolent, is complex and may take a considerable time to occur or may even fail. For example, what is the dominant voice in SHE: law or health or industrial relations or John Donne ethic or quality assurance and profitability? Of course all are relevant but which one should take precedence in decision-making and which one should get more funding for policy purposes?

4.2 Political hegemony and the failure of governments, and governance in organisations and institutions: this barrier hardly needs mention as its presence has been flagged throughout this paper. The world has been forced to witness an ongoing and sad spectacle of a number of examples of brutal government failure whether on political or corruption grounds. CEO scandals are of course one of the main reasons for the call to social and responsible business.

4.3 Technical failure barriers: even under the most favourable reform conditions there can be technical (tools and techniques) failures. This is because such tools and techniques may be relatively new. The political and criminal mind can deconstruct the application of such tools and find ways to circumvent them. But even without wilful countervailing activity, the socio-political complexity of human settlements itself, it appears, is sometimes enough to compromise tools and techniques effectiveness.

4.4 Cultural divide, taboo and loss of trust barriers: these can be, and do remain, very real impediments to standardisation, transparency, the efficiency of contracts, equality of opportunity and gender, and the efficient and effective transmission and use of knowledge, all of which are important to the attainment of social and responsible business. Although trust, once lost, is hard to regain, goodwill with respect to the acceptance of difference is widespread.

4.5 Legal restraints on the flexibility of boardroom conduct: in the late 1990s legislation was introduced in Australia (Coburn, p. 21) that clearly set out the responsibilities of company directors to their shareholders and imposed corresponding penalties for non compliance. Although well overdue as a means of controlling the self interest of board members this legislation required them to act in the parochial interests of the firm when, sometimes, a more philanthropic approach may have been in the best interests of the wider community.

5.0 Challenges to the theory of the firm

If there are positive forces prompting the emergence of ethical boardroom management in this late post-modern era, can ethical management be incorporated in a modern theory of the firm? Despite the increasing attention being given to business ethics' research, and to the development of the theory of the firm in terms of Coasean (1937) themes, it appears that, to date, there is no unified successful approach that handles business ethics (Boatright, 2001). Perhaps this is not surprising in an age of moral relativism and the ascendancy of mathematics in economic science.

However, if business management is adopting a more ethical stance, how can this be incorporated into a theory of the firm? There are at least two challenges to surmount in such an endeavour. The first is the entrenched moral relativism in economics itself; the second is the desire to rely heavily upon a mathematical-deductive method in the development of economic theory.

Moral relativism in economics is most easily seen in the still widely-accepted distinction between positive and normative economics, a distinction, of course, that is the very embodiment of moral relativism. Such is the rigidity with which this distinction is held, it is unlikely that any substantive ethical doctrine could be accepted as an integral part of a theory of the firm. In this context, strictures that the firm be ethical are meaningless (current conventions and legal requirements excepted). Indeed, it is somewhat surprising that a morally relativistic society demands business to be ethical.

Furthermore, it makes little sense to subsume business ethics in either a 'stockholder' or a 'contractual' theory of the firm (Boatright, 2001). Such appeal to the self interest of various groups may sound attractive but does not address the ethical content of those very interests. This is tantamount to assuming away the problem of business ethics; something similar to the failure of ordinal utility analysis to pass judgement on the preferences of market participants.

Heavy reliance on a mathematical-deductive method to construct economic theory raises the problem of the use of symbolic algebra to represent human activity (Klein, 1968). Economic model-building appears to ignore this problem (or is blithely unaware of it) and consequently is unlikely to be able to capture the essence of ethical business in the resultant model.

These two challenges are not to be dismissed easily. Perhaps we need to remind ourselves of the difficulty Alfred Marshall faced in handling the ethics of human action in the early chapters of his *Principles of Economics* (1890), or the advice Keynes gave in the *General Theory of Employment, Interest and Money* (1937) about the place of mathematics in economic theory. An interesting problem emerges: business is beginning to act ethically in an observable way (largely at the prompting of a morally relativistic society?), yet the theory of the firm in its many guises does not appear to be capable of incorporating that very ethical behaviour.

6.0 Conclusion

It is interesting to view the progress of the boardroom against the century of Keynes' grandchildren. Keynes wrote in 1928 that it would take 100 years for humans to learn to be as *purposive* to others as to themselves. Keynes was speaking about the distribution of goods and services. He suggested that business as usual would be the thing for a long time and that humans must run with it. It is interesting that the World Bank targets for the eradication of poverty are set for 2015 leaving a 13-year margin for the proof or disproof of Keynes. Of course it is unlikely that the 2015 targets will be met but it is interesting that Keynes has been partly vindicated. What is driving the new found purposiveness might not be the force Keynes imagined (a new way of human behaviour) but progress of a kind is being made. SHE concerns are at the centre of this progress and may provide, through being able to be expressed in measurable targets, a most important crutch to the progress of social and responsible business.

This paper has argued that there is something of a re-emergence of interest in social and responsible business and a more genuine pursuit of it. It has examined barriers to this emergence. Will the quest be successful? In giving Smith (1759) the last word we can state a beginning:

How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it. Of this kind is pity or compassion, the emotion which we feel for the misery of others, when we either see it, or are made to conceive it in a very lively manner. That we often derive sorrow from the sorrow of others, is a matter of fact too obvious to require any instances to prove it; for this sentiment, like all the other original passions of human nature, is by no means confined to the virtuous and humane, though they perhaps may feel it with the most exquisite sensibility. The greatest ruffian, the most hardened violator of the laws of society, is not altogether without it.

List of References

- Aristotle 1971. *Nicomachean Ethics*, J. A. K. Thomson (ed.), Harmondsworth, Penguin Books.
- Boatright, JR 'Business ethics and the theory of the firm', *American Business Law Journal*, Vol 34
- Burtles, G 2001. 'Workers rights, labour standards and global trade', *Brookings Review*, Vol 19, No4, Fall 2001, pp.10-13, viewed 13 February, 2001, <<http://www.brook.edu/press/REVIEW/fall2001/burtless.htm>>.
- Coase, R 1937. 'The nature of the firm', *Economica*, November
- Coburn, N 2003 *Coburn's Insolvency Trading*, Sydney, Law Book Company
- Giddens, A 2003. NGOs: *Responsibilities of Being Global*, World Economic Forum web page, viewed < 14 February 2003, <http://www.weforum.org/site/knowledgenavigator.nsf/Content/NGOs:+Responsibilities+and+Limits+of+Being+Global>>.
- Keynes, JM 1963, 'Economic possibilities for our grandchildren' in *Essays in Persuasion*, New York, Norton
- Khun, TS 1979, *The Structure of Scientific Revolutions*, Chicago, University of Chicago Press.
- Klein, Jacob 1968, *Greek Mathematical Thought and the Origin of Algebra*, trans. Eva Braun, MIT Press, Cambridge, Massachusetts.
- Mondragon Home Page, viewed 10 January, 2004, <http://www.mondragon.mcc.es/ing/index.asp>
- Oakeshott, M 1962. *Rationalisation in Politics and other Essays*, London, Methuen.
- Oakeshott, M 1963. *Experience and its Modes*, Cambridge, Cambridge University Press.

Organisation for Economic Cooperation and Development Homepage, 2003. viewed 10 January, 2004, <<http://www.oecd.org/>>.

Porter, ME & Kramer, MR 2002, 'The competitive advantage of corporate philanthropy' *Harvard Business Review*, December, 2002, pp. 5-16.

Smith, A 1759. *The Theory of Moral Sentiments*, Printed for A. Millar, in the Strand; And A. Kincaid and J. Bell in Edinburgh, viewed 15 December, 2003, <<http://www.socsci.mcmaster.ca/~econ/ugcm/3ll3/smith/moral.1>>.

Transparency International Homepage, 2003. viewed 10 January, 2004, <<http://www.transparency.org/>>

World Bank Homepage, 2003. Viewed 12 January, 2004, <<http://www.worldbank.org/>>

World Economic Forum Homepage, 2003. viewed 10 January 2004, <<http://www.weforum.org/>>

World Trade Organisation Homepage, 2003. viewed 10 January, 2004, <<http://www.wto.org/>>.