Business Ethics: Between Normativism, Illusion and Responsibility

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Review of Zsolnai, Laszlo (ed.): Ethics in the Economy. Handbook of Business Ethics, Oxford et al: Peter Lang 2002, xiii+331 pp.

This handy but informative book is authored by the *Interfaculty Group in Business Ethics* of the Community of European Management Schools, an association of management schools in Europe. Many figures, tables and boxes allow for a fast orientation with respect to different approaches, case studies and agreements in the wide field of business ethics. All contributions are written on the introductory level; they are furnished with references which enable the reader to delve into issues of interest.

The handbook's editor and chairman of the *Interfaculty Group in Business Ethics*, Laszlo Zsolnai, presents a shortcut through the volume's main goals and propositions in Chapter One ("A New Agenda for Business Ethics"): It is intended to present a European perspective on the issue, characterized by "respect for otherness and a dialogical attitude toward non-European values and cultures" (p. viii). According to Zsolnai (and the other authors of this volume as well), ethics are fundamental to both economic research and economic activities: With respect to the first, an attempt to basically alter economic reasoning, with respect to the second, the attempt to assure an ethicality of economic affairs beyond any curlicue or ornamentation that are attached to daily business and assumed to shy away in the case of diminishing profits.

Zsolnai characterizes the book as actor- and context-centered. The stress on context and history indicates that the volume is more about everyday theory and what Fisher (1989) calls "exemplifying theory" than about "generalizing theory." As can be expected by a handbook of business ethics, and further justified by the tremendous role assigned to organizations today, actors (that is, individuals and organizations) are discussed with a clear emphasis on organizations. A distinction between three levels of analysis – micro, meso and macro – is found throughout the volume and intersects with the pivotal roles both of actor and context/history mentioned above (in which the meso level is attributed to organizations and the macro level to the economic order or framework). Despite the efforts of single contributions, what we do not find in the volume is a systematic introduction into the various ethical approaches that loom large in today's discussion. Such a kind of guide that would help the nonconversant reader to orientate themselves is missing.

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Zsolnai's chapter headed "Moral Economic Man" assembles some – with respect to neoclassical assumptions – recalcitrant empirical evidence on economic behavior and rationality. As alternative, he refers to Etzioni's "I&We" approach, followed by a sketchy characterization of both the moral character of the agents and the relative costs of ethical behavior as primary explanatory variables of economic behavior. Because this line of argument is presented within the usual utility-based framework of analysis, the possibility that it may harmonize with the integration of morality into the neoclassical analysis seems not be excluded.

Ulrich's contribution, "The Future of Capitalism", entails an introduction into his well-known integrative business ethics whose main purpose is seen as a "critique of economic reason" directed at "new ethical foundations" of economics. Ulrich accepts no resort for "repair ethics" instead, he argues for "ethically integrated socioeconomic rationality" (p. 16). Throughout the book, neoclassical economics is referred to as "pure economics." Against the background of neoclassical theory's assumption of indifference, that is, selfishness (Boulding 1969), Ulrich advocates a "grammar of intersubjectivity" or "normative logic of human interaction" (p. 20). His approach lays claim of going beyond any attempt to integrate morality and utility within the neoclassical apparatus of analysis.

Three papers deal with differences between the shareholder and stakeholder concepts. Soppe's "Ethical Theory of the Firm" sketches an ethical framework along the trichotomy between deontological, teleological and virtue ethics. According to him, it is virtue ethics ("pure individual responsibility", p. 99) that opens the possibility of improving human financial behavior. Finance and ethics are not paradoxical if we make the right choice of theory of the firm. The contribution is written from the perspective of a finance-and-ethics approach that declares the shareholder approach as just being "outdated." However, while it is true by definition that – compared with the stakeholder approach – the shareholder approach covers only a small range of relationships and interests which are at stake – or could be considered – in order to explain corporate behavior, this does not make it obsolete even for an "ethical theory of the firm."

Higgins's contribution, "The Stakeholder Corporation", makes a distinction between neutral, pragmatic, engaged and idealistic stakeholder approaches. The neutral version reduces stakeholder relationships to the principal-agent relationship between owners and managers. The pragmatic version considers the interests of all stakeholder groups only with respect to their contributions toward the fulfillment of the shareholders' favored interests. The engaged version strives for a marriage of all stakeholder interests (including those of the shareholders), whereas the idealistic version requires that "the firm is seen as existing for all stakeholders" (p. 105). This approach implies that the shareholders' interests can even be sacrificed. Higgins reports that some authors believe in the potential of moral behavior to reduce costs and improve sales and profits. But evidence on the relation of stakeholder management and financial outcomes is still rather scarce or "nebulous".

Kapstein and Wempe's paper, "Ethical Dilemmas of Corporate Functioning", extends the analysis of the division of labor from within the firm to the relationships between the firm and its external co-workers, that is, its stakeholders. This point of view on different stakeholder groups and their particular contributions to the outcome of the firm allows for a more detailed analysis of interest conflicts and their respective consequences for the ethics management of the firm. As the authors state, an adequate corporate ethics should reflect on the question of which stakeholder interests the company should honor. One consequence (labeled the "dilemma of the dirty hands") is that not all stakeholders' interests can be accounted for by the management; hence, responsibility (for the interests of the whole firm) and morality do not equal one another. From the point of view of universal moral categories, not to accommodate all stakeholders' interests may be equated to immoral action. Yet there is always a need to exclude potential or actual stakeholder interests, because otherwise the firm would run into the danger of losing necessary resources and, in the long run, even imperiling its existence.

Morsing and Pruzan's paper titled "Values-based Leadership" presents an overview and analysis of three leadership discourses on corporate values: business ethics, corporate social responsibility, and corporate branding discourse. Furthermore, they single out four forces driving values-based leadership: religion, democracy, control, and illusion. The authors make an adjutant distinction between tacit and articulated values, whereby only the latter are seen as a topic for organizational reflection and discourse. The cognitive and emotive foundation of the socio-psychological concept "value" has broad implications for leadership; it also provides a source for the formulation of long-term organizational goals as well as for the reflection on individual and organizational identity and responsibility. Whereas business ethics emphasizes the internal organizational perspective, corporate social responsibility strengthens the external dimension. Corporate branding, stemming from strategic marketing theory, attempts to communicate the value dimensions of the firm's output (as well as other non-price dimensions) to its (individual and organizational) customers. As Morsing and Pruzan note, it can be difficult to harmonize the internal and external dimensions of values-based leadership. Those who execute it are also always in danger of stepping into the pitfall of producing just an illusion or chimera of organizational social responsibility.

Lozano's article titled "Organizational Ethics" focuses on organizational ethics interpreted as "the set of values which structures the organization and its practices" (in the broad sense of the term, cp. p. 165). Lonzano argues for the development and implementation of "moral culture." His dynamic view on corporate values may function as a gateway for the integration of knowledge and learning processes into the business ethics approach.

Bandura et al.'s contribution on "Corporate Transgressions" emphasizes that, unlike common law breakers, corporations have the resources and power to influence the rules of the game. Corporate ethics management hence has to take into account the diversity of mechanisms maintained by managers in order to justify or obscure their detrimental practices that may result or have already resulted in reprehensible organizational behavior. In order to achieve sustainability, Tencati, in his paper headed "Managing Sustainability," opts for an integrated information system that monitors a firm's performance with respect to its economic, social, and environmental consequences.

The next three papers mainly relate meso and macro-level aspects of analysis. De Geer's paper connects, as it is titled, "Business and Society." In the age of globalization, transnational corporations have been grown up within economies that, in many cases, were able to attract more resources and to execute more power than many states (see Box 12.3). In consequence, social responsibility should be discussed in a global context. As the influence and power of companies have increased, those of the states have decreased. The achievement of global social responsibility, then, requires a wider corporate commitment in order to fill the gap resulting from missing or insufficient global institutions. De Geer, however, doubts that this demand will be met because of the western tradition of distrust of connecting economic and political affairs.

Boda's "International Ethics and Globalization" may be read as a radicalized version of De Geer's paper. He suspects that the international system is slipping into anarchy. Because of this, multinationals have to assume their duty of cooperating within global governance systems. In doing so, they have to apply universal moral principles while also respecting local norms. Boda does not keep silent on the difficulties into which even a firm with the best moral intends can run in order to cope with the harmonization of UN or western standards on the one hand, and local norms or attitudes on the other (cp. Winstanley et al. 2002). However, more could have been said about the need for self-commitment by the local economies (Sautter 1999). All in all, for Boda "globalization" equates to "sharp competition" and the "race to the bottom" (p. 251).[1] As a consequence, Boda accepts global governance in order to preserve global commons, but his vision of the world's future is one with less *economic* globalization. I believe that this amounts not only to a challenge but also to a contradiction in terms.

Büscher's contribution, "Ethics of the Market", states a "continuing process of liberalization, deregulation and privatization of the economy" (p. 211) has resulted in an "ethical vacuum of Ordnungspolitik"' (ibid.). As Hoover (2003) explicates, this is due to the rising (and still lasting) age of Hayek, after the "age of Laski" from the 1920s through the 1940s, followed by the "age of Keynes" from the 1950s to the 1970s: "By 1980, a third phase appeared: a reaction against government and a celebration of laissez-faire capitalism with the advent of Margaret Thatcher and Ronald Reagan. Hayek was Thatcher's most avowed intellectual mentor.[2] He was a hero to Reagan, a college economics major" (Hoover 2003: 2). Büscher notes that the market and competition are not sufficient for ethical macro-level phenomena, and emphasizes the need to pay attention to market contextual preconditions that are considered central to the ethical quality of the market. Notwithstanding, in today's globalized economy the less developed countries are striving for free trade, fair rules of competition, and participation.

1 Shleifer (2004) discusses a broad range of circumstances in which competition promotes unethical behavior. However, competition is not the source, but the transmitter of unethical behavior, if not directed by both adequate institutions (governmental regulation) and private choice. Because competiton is also a source of innovation, growth, and thus of wealth, it may increase the people's inclination to pay more for ethicality and may even change the meaning of ethical behavior, that is, replacing "more tribal and parochial beliefs" (Shleifer 2004, n. p.).

2 In Europe, Great Britain had the highest growth rate from 1995 to 2003: 22 percent (Germany, the laggard, achieved 10 percent). According to Sinn (2003: 2), "British successes are the late effects of Margaret Thatcher's reforms in the 1980s."

The last chapter on "The Future of Capitalism" by Zsolnai presses a need for a fundamental change of capitalism. The author opposes "market fundamentalism" and claims that instead of teaching economics, the economic teachings of the world religions have the potential to challenge the way capitalism is functioning. Yet religious norms are – like all institutions – Janus-faced. While the need for an analysis of indigenous institutions (Boettke et al., n. d.) should not be downplayed, moral and religious rules often contradict basic human rights and hinder personal, social and economic development (see Kirchgässner 1999). Zsolnai claims that "free markets cannot produce socially optimal outcomes" (p. 296). He is right in arguing that there are ethical and social considerations beyond allocative optimality. In welfare economics, optimality does not imply laisser faire (and vice versa): But I would not go so far as to declare that laisser faire and the achievement of an optimum state would exclude each other.

From the share- and stakeholder discussion throughout the book, it can be learned that the last-mentioned approach is not fundamentally different to the former: While the number of interests that have to be taken into account by an organization is extended, many "stakeholders waving for help" (cp. Kapstein / Wempe, p. 142) must be ignored. Kapstein and Wempe's co-worker approach also expresses the need for customers who are willing to demand products from socially responsible managed firms. Interaction between organizations and their stakeholders enforces socially responsible behavior (cp. Tencati in this volume) only in cases where both camps pursue and accommodate it. In other words, the problem is not that there is no simple causality between a firm's moral input and its financial outcome; rather, it is that a firm that attempts to behave morally is in danger of suffering extra financial losses. At this point, moral responsibility needs back up from the institutional framework in order to enable economic actors to behave morally without coming to the need to bear welfare losses credited to their morality.[3] Both Ulrich and Zsolnai's analyses harmonize with an institutional framework designed according to cost-benefit analyses concerning this matter.

Many parts of the book stress the distinction between the world of "pure economics" and the life-world. There is a difference in the way a theory can accommodate ethical and moral principles, and the way life-world actors can. A systematic treatment of both this distinction, and the relation between the "world of theory" and the actors' life-world, is still absent. Is it, and if so, to what extent is it the case, for example, that the (globalized) world looks like it does because the neoclassical economic theory treats the economy as a "system separated from society" (Table 11.7, p. 224)? I will not claim that there is no influence (surely there is; see Kanbur 2002); but neoclassical economics has adapted itself quite well to the requirements. Because there is no difficulty in integrating morality into the neoclassical framework, the endeavor to concatenate economic and ethical reasoning ought to be accompanied by a careful consideration of what has been achieved and what may be achieved in the future, respectively. In the realm of business economics and ethics there is, as the volume shows, a great

[3] This does not imply discharging economic actors from socially responsible behavior. Cp. Ulrich (in this volume, p. 27) for a similar argument.

deal of theoretical work that has to be done beyond share- and stakeholder discourse. The corporate actor – and herewith also the corporate citizen – is no life-world entity but a theoretical construct. It is open to discussion if and how an organization's life-world commitment to corporate social responsibility relates to theoretical conceptualizations of corporate legitimacy or citizenship.

In the applied sciences, scholars have to analyze the interfaces between the world of theory and the life-world, too. During the last decades, business economics have gained remarkable influence on the knowledge bases of life-world actors, especially on those who are employed by organizations or conducting their own business. Life-world actors can choose between theories that seem to be suited to guide their strategies and actions. Actors are further guided by everyday theories, preferences, attitudes, beliefs, and values. Business economics can not neglect the whole array of motivations that have an impact on actors' decisions; it has also to reflect on valuations that actually do or may permeate its concepts, applications intentions, and so on. It can not oblige actors to accept moral categories or impose moral duties on them; notwithstanding, it can make actors more sensitive to moral or ethical behavior and its consequences. It can also cast ethical problems into the light of scientific analysis and provide actors with the knowledge required to decide on the basis of critical responsibility.

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