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Corporate Responsibility

Governance, compliance and ethics in a sustainable environment

Second Edition

ALWAYS LEARNING

PEARSON

Corporate Responsibility

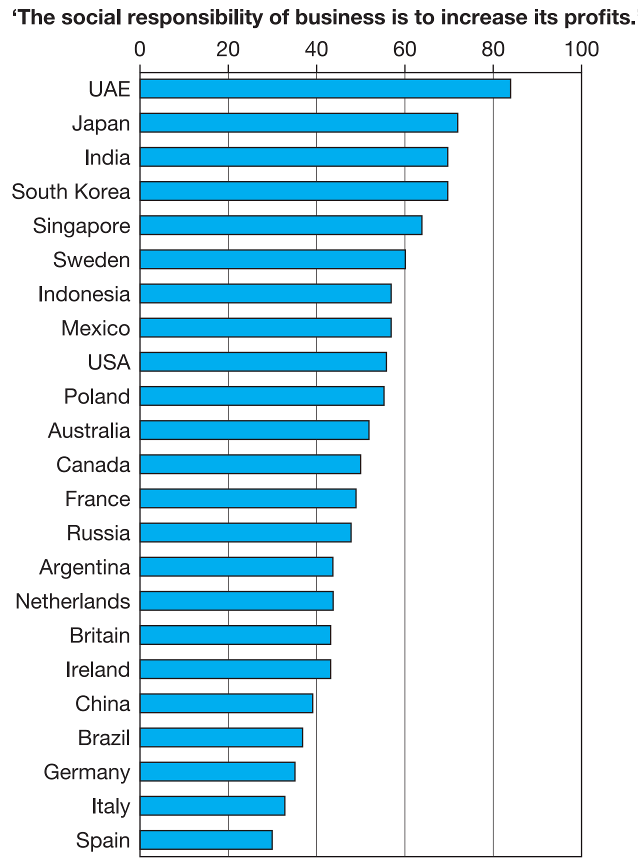


Figure 5.2 Forget CSR, make money: percentage of informed public (ages 25–64) who 'strongly agree' or 'somewhat agree' with this Milton Friedman quote

Source: Edelman (2011) *2011 Edelman Trust Barometer*®, Chicago: Edelman.

First, what were the moral values at News International that were supposed to shape the behaviour of its employees or associates. In effect, was it explicitly or implicitly acceptable for private investigators in the employ of the *News of the World* to gather data from hacked phones or journalists to use this data?

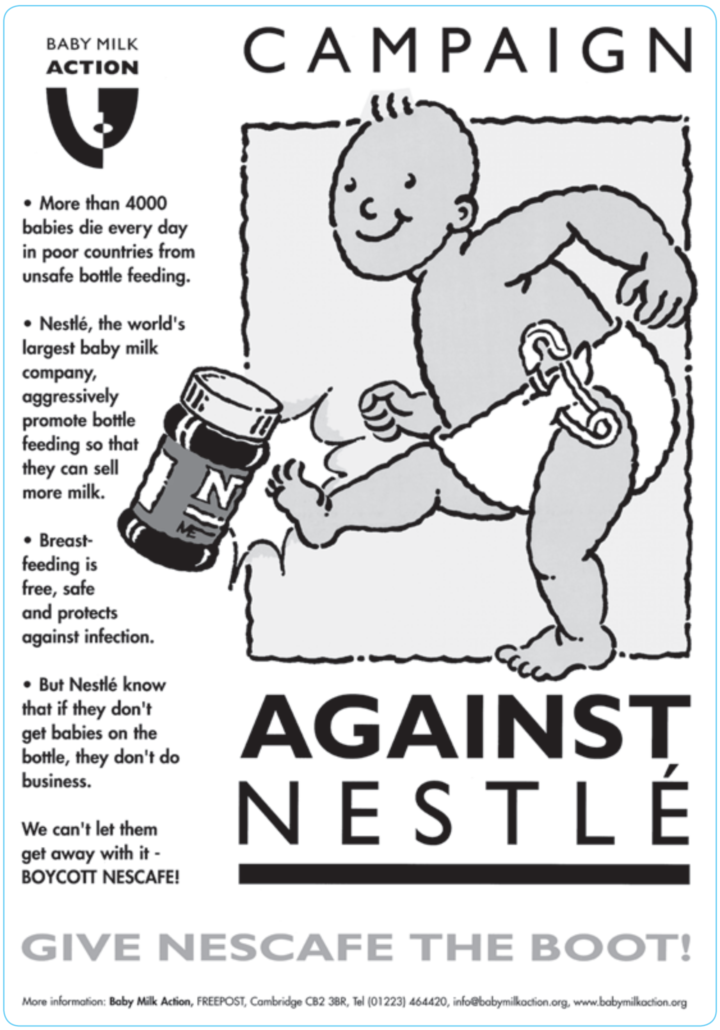
Second, what systems of management, scrutiny and control were in place to ensure that unethical, immoral or (even) illegal behaviours were identified, discouraged, prevented or punished? In organisations it is generally assumed that individual actions are in part at least the responsibility of the organisation and its leaders. Those in charge have a responsibility for the actions of their subordinates.

The term 'willful blindness' has been coined to define the behaviours of these executives who do not exercise this responsibility. Courts, however, around the world have generally rejected this defence, with the US Supreme Court most recently (2010)[8] deciding that 'wilful blindness' will not save a defendant from charges.

The ethical challenges

Ethical issues pervade business life. The board that considers moving production off-shore, leaving local workers unemployed are making an ethical choice between the needs of different stakeholders. Engineering directors who have to decide whether to introduce a new technology face a moral dilemma. They know it might put loyal employees out of work because the new equipment needs fewer people or their skills are redundant.

Likewise, the trade-union officers who want to ‘embargo’ cheap imports from a poor developing country know that this country desperately needs the foreign exchange. They must decide whether to put the needs of their members before those of Third World peasants. In the Uruguay Round of GATT negotiations, US demands for licence fees for software



Safe milk action: campaign against Nestlé

Source: Baby Milk Action

products were ranged against the calls for easier access to northern markets for southern agriculture. The current Doha Round is dealing with issues of labour standards, environmental policies, competition rules, investment, transparency and patents, each of which will pose ethical dilemmas for organisations and people.

The marketing policies of firms raise a host of ethical issues. These range from the kinds of images used in advertising, with the exploitation of women in advertising a recurrent theme of many critics of the fashion industry, to the types of products offered to the market. Few products and promotional campaigns have generated more sustained criticism than Nestlé's promotion of its breast milk substitutes to health workers with the claim it 'protects' babies. Nestlé uses a 'protect' logo and the slogans 'Start healthy, Stay healthy' and 'Strengthening the immune defences and reducing the incidence of diarrhea in the crucial first year of life'. The evidence is, however, that babies fed on baby milk are proven to be more likely to suffer diarrhoea and short- and long-term illnesses than breastfed babies.

In recent years, the ethics of a host of firms and industries from banks and utilities to newspapers and retailers have been questioned as seldom before. The most recent (2011) Ipsos MORI Veracity Index showed that only politicians and journalists enjoyed less trust than business leaders.

A matter of trust

To the question, who would 'you generally trust to tell the truth', less than one in three people 'trusted' business leaders to tell the truth (Table 5.1).

The decline in trust for business is especially marked in the USA and northern Europe. The data in Figure 5.3 give some indication of the decline in trust for business. Although there was some recovery between 2009 and 2011, the broad pattern of decline in trust persists.

This decline in trust is especially noticeable in the banking sector. In the USA and UK there was a collapse in trust between 2007 and 2011 (Table 5.2), with banks being transformed from being some of the most trusted organisations to some of the least trusted.

Table 5.1 Who is trusted?

Doctors	89%
Teachers	86%
Professors	77%
Judges	75%
Scientists	67%
Clergyman/priests	75%
The police	61%
Television news readers	68%
Ordinary man/woman in the street	56%
Civil servants	43%
Trade-union officials	36%
Business leaders	28%
Journalists	17%
Government ministers	19%
Politicians generally	14%

Source: IPSOS MORI Trust in Professions 2011.

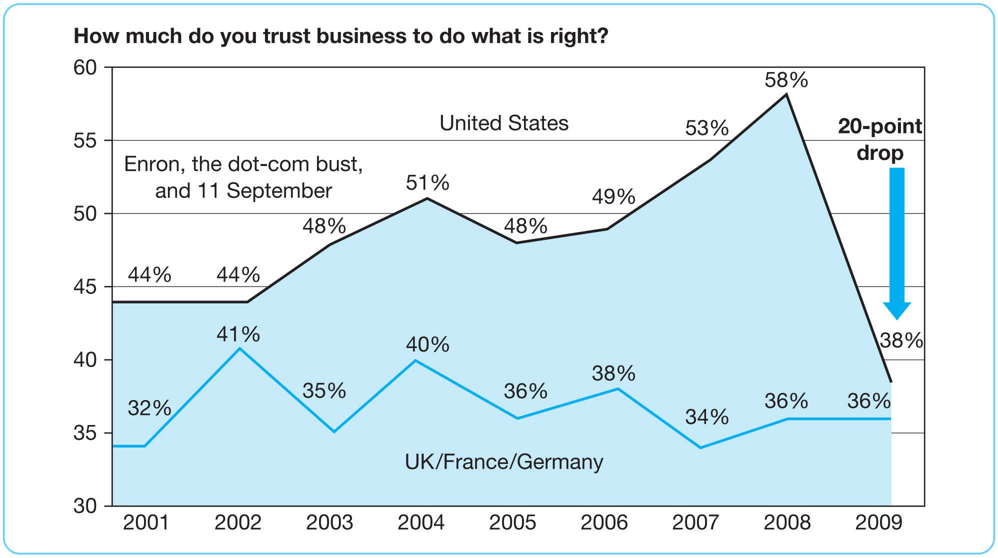


Figure 5.3 Decline in trust in business

Notes: Informed public aged 35 to 64 in the USA, UK, France and Germany; responses 6–9 only on a 1–9 scale; 9 = highest.
Source: Edelman (2009) *2009 Edelman Trust Barometer®*, Chicago, Edelman, Figure 2, p. 3.

Table 5.2 Decline in trust for banks

	Percentage of those who trust banks				
	2011	**2010**	**2009**	**2008**	**2007**
US	24	29	36	69	68
UK	14	21	31	47	41

Source: Adapted from Edelman (2011) *2011 Edelman Trust Barometer®*, Chicago, Edelman.

The traditional view of ethics and morality in banking was well summarised by Charles Green, one-time deputy group chief executive of National Westminster Bank:

> The financial community has a history of placing moral considerations above legal or opportunistic expedients. But we are often exposed to moral dangers and the dangers of contamination are increasing. Deregulation and the technological revolution are sharpening ethical conflicts. Bankers' role is one of stewardship based on trust. We are trusted by those who ask us to look after their money.

This was not a universally held view of the ethics and values of bankers. Thomas Jefferson claimed that 'banking institutions are more dangerous to our liberties than standing armies'. Until the banking crisis of 2008, however, majorities in most countries trusted the ethics of their bankers.

The building blocks of these moral codes, values and ethics highlight many of the wider issues and analysis of business ethics in general. At the same time, the apparent erosion of these codes, values and ethics illustrates not only other aspects of business ethics but the challenges those seeking to study, understand or implement business ethics face.

Firms and managers try to resolve ethical questions in a host of ways. Traditionally, it was assumed that a general social ethic permeated the society. In the West this was generally seen as a mixture of individualism and Christianity. Smith[9] summarises the first of these with his observation that 'it is not from the benevolence of the butcher, the brewer and the baker, that we expect our dinner, but from their regard to their own best interest'. The Christian tradition was closely linked to the rise of capitalism in the work of Weber. He saw a powerful link between Protestantism and capitalism. The increasingly secular nature of society in the West and the successful industrial development of communities with powerful corporatist or communal traditions has created a more eclectic base for business values and morality.

The shift in economic power and business activity to Asia, the Middle East, Latin America and beyond has reinforced the range of challenges facing those trying to understand and shape business ethics. Domènec Melé[10] notes that 'each of Judaism, Christianity, Islam, Hinduism, Buddhism, Confucianism, Taoism and Shinto has its own organized system of beliefs, ceremonies and worship, and each offers prescriptions for positive endeavour in both life – and in business'.

Sabahuddin Azmi[11] points out, for example, that:

> Islam has its own distinctive value-based ethical system for business dealings. It prescribes certain specific guidelines for governing business ethics. It (i) enumerates the general ethical rules of business conduct, (ii) identifies ethically desirable forms of business, and, (iii) specifies the undesirable modes of transactions . . . (with specific injunctions about) truthfulness, trustworthiness, generosity and leniency, adherence to business commitments and contracts, fair treatment of workers, avoidance of evil practices (such as fraud, cheating, deceit, hoarding of foodstuff, exploitations, giving short measures etc.).

Confucianism with its millennium-long history has developed a foundation for business ethics that 'stresses character formation or personal cultivation of virtues (*de*); first the basic, interdependent virtues of *ren* (love and care for one's fellows), *li* (a set of rules of proper conduct), and *yi* (reasoned judgment concerning the right thing to do); then the dependent virtues of filiality, respectfulness, trustworthiness, and others. It emphasises the Golden Rule of "What I don't want others to do to me, I do not want to do to others"'.[12]

The diverse underpinnings of business ethics help to shape the ways in which both the study and implementation of value or ethical-based behaviour in businesses. Growing awareness of these underpinnings coincides with greater recognition of how economic, social and cultural change influences business ethics. Enderle[13] notes how 'business ethics is an emerging and dynamic field, depending strongly on economic factors, but also on political changes and a growing awareness of value conflicts and ethical and environmental demands'.

Enderle[14] highlights several issues as especially important in shaping the local approach to business ethics around the world. These are that:

1. Ethical issues in business are not merely 'rational problems' but deeply rooted in emotions and cultures.
2. Business environments and some specific issues across national borders play a crucial role in shaping priorities.
3. Corruption, leadership, and corporate responsibility attract particular attention.
4. Among the most common themes in the business ethics/business and society literature especially in North America is about stakeholder obligations and 'stakeholder theory'.

Noland and Philips[15] suggest that 'ethical, that is honest, open and fair engagement of these stakeholders is necessary for a business to function properly'. Noland and Phillips go on to explore the different perspectives that emerge from Habermas's[16] analysis of the moral basis on which businesses engage with stakeholders. They appear to posit two extremes: first that stakeholder engagement should develop 'without considering whether it aligns with my (business) strategy'. At the other extreme is that the core of business ethics lies in 'including honest, open, respectful engagement as *a vital part of a firm's strategy*'.

The challenges managers face and their awareness of the limitations on their ability to predict or control outcomes has made them increasingly aware of the nature of the ethical challenge facing them.

Several key decision areas illustrate the 'rational problems' that raise powerful ethical questions. Among these are:

- innovation and change
- climate change
- taxation.

Innovation and change

No aspect of business raises more questions of ethics and values than innovation and change. This challenge may occur because of the threat that change poses to individuals and communities or because the failure to innovate poses a threat to the enterprise itself.

Communities can be blighted by economic and industrial changes which transform their ability to compete. The changes in the mining and steel industries in Europe and North America demonstrate this. Production in these sectors was typically concentrated in communities with few alternative sources of employment locally. This was as true in industrial communities on the East Coast of the USA like Pittsburgh and Baltimore as in the Wallonia, South Wales and the North-East of England. Closing the mine or steelworks could mean killing the community. The greater the change, the more widespread is the effect. Often, the skills, working methods and environments that underpinned past economic success are inappropriate or unattractive to new industries.

In sharp contrast, firms which are skilful at innovation – the successful exploitation of new ideas – consistently secure a competitive advantage in a rapidly changing world market, while those which are not will be overtaken. In a series of reports the OECD has highlighted the importance of innovation across industries and communities[17] while highlighting the challenges that innovation poses to existing industries, communities, competences and skills.[18]

This is not a new ethical dilemma. The best cultures, systems and plans do not remain static for long. Economic conditions, competitor's behaviour, market dynamic technological advances and the political environment demand changes. Drucker[19] has gone as far as saying that 'innovation' is one of the two basic functions of business. Deane[20] argues that change is the key characteristic in industrial society.

The challenge was recognised from the first by Luddites and other machine wreckers who sought to stop the introduction of the new technology. It is seen every day in the firm that seeks to extend the life of a declining product or resists the pressure to use new technologies and novel techniques. Schumpeter[21] called 'creative destruction' the way innovation and change continually raises questions which affect society, the economy, culture and the environment.