Why Is Business Talking About Ethics?: Reflections on Foreign Conversations

Joanne B. Ciulla

In October of 1986, London's Lord Mayor invited 100 representatives from industry and the professions to a conference on company philosophy and codes of business ethics. A year later, a group of European managers and academics formed the European Business Ethics Network. In 1988, the first European business ethics journal, Ethica Degli Affari, was published in Milan, Italy. That same year, the Japanese government gave the Hitachi Institute funding for a large cross-cultural study on corporate responsibility. Similar events took place in the Southern part of the world. The Catholic University Madre y Maestra in the Dominican Republic both began to develop ethics programs for their professional schools. In 1988, a wealthy Venezuelan businessman donated a chair in business ethics to the Instituto De Estudios Superiores De Administracion (IESA) in Caracas. What is going on here?

Several years ago Peter Drucker said that business ethics was a fad. He called it "ethical chic." Foreigners regarded the subject as a typically American form of self-righteousness—the U.S. kept the world safe for democracy and now it was on a mission to save it from unscrupulous business practices. Today things are different. Questions about the social and ethical responsibilities of business are not just the concern of a few well-meaning individuals, nor are they the invention of bored academics or muck-raking journalists. If business ethics is a fad, its one that keeps popping up throughout history. Cicero wrote about unscrupulous business

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practices in 44 B.C.; the Medieval Church produced long treatises on the morality of business practices like wage labor, usery, and a fair price; and European social thinkers of the seventeenth and eighteenth century engaged in lively debate over the relationship between self-interest and the greatest good. Discussions about ethics and business are not limited to the West. In Tokugawa Japan, for instance, intellectuals at the Kaitokudo merchant academy of Osaka pondered the relationship between business, keisei (the order of the social world), and saimin (the concept of saving the people).

History tells us that business ethics is a subject that comes and goes. So the interesting question is: Why is it a topic of conversation during one era and not another? In this article, I look at some of the social, political, and economic conditions that have made business ethics a topic of conversation today. Over the past three years, I have had the opportunity to talk to a variety of managers and academics from England, Europe, Japan, the Dominican Republic, and Venezuela about business ethics. These conversations have helped me put together a story of why ethics is currently on the business agenda. My account is descriptive and interpretive. It is not a rigorous empirical study nor is it a literature review. The goal of this article is to reflect on what I have heard at interviews and international conferences and symposia and to outline some of the themes that underlie the current discussions. The major themes are political conservatism, deregulation, moral pluralism, and globalization. As a philosopher, my long range research focuses on the following questions: What conditions make the discussion of business ethics possible today? What does the current discussion of business ethics mean in terms of the way that people in various cultures think about morality? I pursue these questions because I think that we must first understand why the international business community is raising questions about ethics in order to know where to look for the answers.

For some business people "ethics" is rather like Oscar Wilde's "love that dare not speak its name." They are very concerned with ethical issues, but uncomfortable talking about them. Some people object to the term "business ethics" and prefer to characterize ethical problems as managerial problems. In the U.S., the subject is referred to as social responsibility, business and the external environment, corporate responsibility, and business and ethics. The Germans and the German-speaking Swiss prefer to call it "wirtschaftsethik," which loosely translated means the ethics of relationships between economics and society. Meanwhile, bankers in France coined the word "deontologie" (duty or obligation) for their statement on ethics. In Latin America, people tend to refer to business ethics in the negative. When they talk about ethical issues in business, they usually use the word "corruption." Despite language differences and variations in cultural values and moral systems, there appears to be a family resemblance in the way that the term is used in the international business community. The term "busi-
ness ethics" is generally used to refer to a broad range of issues related to the social and moral responsibilities of businesses and people making decisions in a business context.

Conservative Politics

Conservative politics and liberal economics can be a burden and a blessing to business. Both Ronald Reagan and Margaret Thatcher believed in shifting public responsibilities to the private sector. Reagan promised to shrink government and to get it off citizens’ backs. He encouraged business to support the arts and social programs and then cut government spending on welfare. President Bush continued with Reagan’s theme. In his inaugural speech, Bush evoked the old barn-raising ideal of volunteerism. He asked everyone to pitch in and create “a thousand points of light.” Thatcher held a similar philosophy. Like her friend Reagan, she had an enormous faith in the ability of the free market to create wealth and the “trickle down effect” to distribute it. Both leaders lionized the entrepreneur as the national savior, who would put the country back on its feet and make it a contender. The Reagan/Thatcher ideology focused on creating wealth, not distributing it. Both leaders repeatedly told the public that the private sector could deliver better goods and services than the government. Their public philosophy gave business more power, but it also had the consequence of giving business more social obligations. This is ironic because, in the past, social critics feared that without tight restrictions, businesses would exploit the labor force and destroy the social, moral, and aesthetic fabric of society.

It’s not surprising that business ethics blossomed in an era of conservative political ideology that favored a freer market and self-regulation over government intervention. Labor and the political left in the U.S., U.K., and Europe have shown little interest in the subject and are rarely represented in public forums or conferences on business ethics. The British Labor Party’s new slogan “business where appropriate, government where necessary” begs the real question facing democracies today—i.e., How do we determine the appropriate roles for business and government? I was told by a Labor M.P. that “the Labor party is not concerned with problems in business ethics and it does not have any interest in the subject.” Ironically, tension exists between the interests of organized labor and the idea of making business more socially responsible and ethical in its treatment of employees. As an institution, organized labor owes its power and moral authority to the exploitative and irresponsible behavior of business. Unions provide external regulation of business, they protect workers from the potential of management to misuse its power. Employers can thwart union organizing by acting responsibly, by providing fair wages and benefits, and by improving the quality of worklife. Like unions, the American Democratic Party
has often played a critical role towards business and it tends to favor protective legislation to self-regulation. The current dialogue on business ethics could use more input from labor and the political left.

**Public and Private Responsibility**

Since business was held up by Reagan and Thatcher as the knight in shining armor, the public began to expect more benefits from business and less from the government. In the U.S., these expectations have been growing for years. Indeed for the past century large firms not only provide for pensions and health care, but they are also branching off into social services like day care. Some managers in the U.K. are perplexed by the new role of business. British management consultant Charles Handy observes:

> It’s been made increasingly clear, in Britain at least, that it is the organization’s job to deliver; it is not its job to be everyone’s alternative community, providing meaning and work for all for life; nor is it its job to be another arm of the state, collecting its taxes, paying the pensions, employing the handicapped and the disadvantaged, administering an implicit incomes policy or collaborating with an exchange rate policy.”

Handy believes that this extended role of business may get in the way of its real function which is to deliver quality goods and services. As one British chief executive complained, “My social objectives add five per cent to my costs.” Professor Jack Mahoney, director of the Business Ethics Research Center at Kings College, adds a different twist to the Handy statement. Mahoney believes that business is as powerful a social agent as the state, and the churches. However, he wonders whether the streamlined business of the future will be able to carry its social burden and at the same time get on with business.” Mahoney may be right, especially if industry continues in its quest to produce more from less, while government seems to produce less service at a greater cost.

While the public expects more from the private sector, companies may soon realize how much they had depended on government. Ironically, the current “laissez-faire” political and economic environment may be letting business do more than it bargained for. Most firms cannot operate without a physical infrastructure (i.e., roads, water, electricity). They also require a social infrastructure that includes things like police protection, a competent civil service, public education, social services, and a health care system. When the government of a developing country cannot provide the required infrastructures, businesses usually take up the slack. In spite of the influence of Reagan/Thatcher type ideology on other European countries, public spending in the EEC has grown from 29% of the GDP in 1960 to 39% today, but the quality and quantity of public services seem to be eroding.” In an era of indebted and overburdened governments, the prosperous private sector will eventually have to compensate for the erosion of the social infrastructure (and perhaps the physical infrastructure) in order to function.
In the U.S. and the U.K., for example, the government-funded education system is in a state of crisis. This means that a growing portion of the work force may not graduate with the basic skills needed by industry. So it is not uncommon to find companies donating funds, staff, and equipment to education. In the U.S., one often reads news items about companies “adopting” schools or supplying staff and equipment to them. Corporate leaders point to the shrinking labor supply and the need for specialized skills as a justification for these social commitments. Motorola Inc., for example, offers a six-month remedial education program to improve the basic skills of poorly educated employees. Its education director complained that the company “spent $5 million on this training last year, and that came right out of the profits. The public schools should handle this task.”

In England, “Industry Matters,” a subgroup of the Royal Society for the Encouragement of Arts and Manufacturers, established a program to improve the image of business and to encourage the entrepreneurial spirit in young children. Supported by private industries, this program set up mock businesses in elementary schools so that children could learn about running a business. One elementary school was given a miniature McDonalds so that the children could play at working. In another school, students started a small crafts shop. The Industry Matters program aims not only at developing business skills, but it also hopes to instill pro-business attitudes in young people.

Social activism by business is laudable. However, it does raise some serious questions about the responsibilities of government and the proper role of business in a democracy. Corporate leaders find themselves thinking carefully about the delicate lines between helping society, serving its own interests, and shaping public policy. It is one thing for a company to donate computers to a school and quite another for it to determine the curriculum of that school. It is quite possible that one will lead to the other. Education that is geared toward producing better workers may be at odds with the role of education in a free society.

The British seem less concerned about the charities that a company supports than they are about the influence of business and market values on public services. Public discussion about business ethics in England centers on two issues. The first is political. How do we delineate the social responsibilities of the public and private sectors? This will become a particularly important question for the Northern European welfare states, especially if they are forced to cut taxes and government services in order to be competitive. England, like the other former welfare states, has a deep concern for the common good. For example, in 1989 there was a tremendous public outcry when Thatcher suggested that business build a private toll road to ease the traffic around London. A far more passionate debate occurred as the Thatcher government attempted to make the public health service more “efficient.” Many interpreted this to mean that cutting costs and streamlining procedures would diminish the quality of public healthcare.
Privatization of the municipal water commission caused similar concerns. The concept of stewardship and service to society with its shared values and traditions is very important to the British. Its roots lie in the ideas of the Scottish enlightenment. Adam Smith believed that civil society was a precious and precarious creation. Adam Ferguson called it "a gift." He said civil society protected the individual from the state, but at the same time kept him from being at the mercy of nature. Individualism hung in the balance with the obligation to care for the common good. Hence, Mrs. Thatcher ruffled a lot of feathers with her quip "there is no such thing as society."

The second issue that is distinctive to the British public discussion of business ethics concerns whether it is appropriate to let market values like consumerism, instrumentalism, efficiency, and profits dominate all facets of our lives. For example, an editorial in the Sunday Observer laments the fact that the language of the market has come to dominate all institutions, including education. The author, an educator named Peter Abbs, says the government regards education as "a giant industrial process whose products have to be managed, promoted and sold, and brought into line with adjacent industrial processes, manufacturing and marketing and mass produced commodities." He quotes the education secretary of State who referred to teachers as "the main agents for the delivery of the curriculum."16

**Deregulation**

Deregulation stimulated discussion of business ethics inside companies. It was supposed to unleash market forces, get rid of the dead wood, and make everything more efficient. The financial industries greeted it with joy, expansive growth, and then a sobering crash. For some deregulation meant "what is no longer prohibited is permitted." The scandals and the subsequent disgrace of companies like Guinness and Drexel Burnham Lambert, compelled managers on both sides of the Atlantic to think about the ethics of their employees and focused public attention on the ethics of senior executives. Questions also emerged about the social impact of hostile takeovers and leveraged buyouts on the economy.

Deregulation is often justified by the assumption that the market will discipline business and/or companies and industries can regulate themselves. If they didn't regulate themselves, then new laws would be created. Prudent firms began to think about their operations from a moral point of view. Just as the Reagan/Thatcher ideology in effect gave business more social responsibility, deregulation had the effect of giving it more ethical responsibility. During the regulated days many companies worked under the assumption that they were ethical if they followed the law. Most businesses were in favor of deregulation. That meant that in order to keep from being re-regulated, they had to find ways to insure the legal and ethical
integrity of their employees and their industry. This why some business people in the U.S. put pressure on business schools to teach ethics, and some business schools took the initiative to teach business ethics in order to stimulate the business community’s interest in the subject.

Corporate restructuring and fear of takeovers indirectly led managers to think more about the ethical environment inside the firm. One way to lower operating costs is to get rid of expensive middle managers. This raises a variety of questions about the moral responsibilities of a company to loyal middle managers who have been with the firm for 20 years. Flattening the traditional pyramid-shaped hierarchy means that there are fewer managers to direct and police workers. Employees further down in the hierarchy are given more decision-making responsibility. This cuts red tape and can make an operation more efficient, but it also requires managers to trust their employees to make good business decisions without big brother looking over their shoulder. Large companies in particular have begun special training programs to communicate their ethical standards on such issues as accepting gifts and conflicts of interest. These programs are also designed to improve skills at making ethical judgments.

Codes of Ethics

The dominance of law in American culture makes it difficult for some people to think about ethics, except in terms of laws. For example, when President Bush entered office, he appointed a lawyer to be his ethics czar. The basic job of the czar was to revise the rules on government ethics. However, the scandals involving White House employees had far less to do with rules than they had to do with the fact that certain individuals lost sight of what it meant to be a public servant. While laws shape formal notions of right and wrong, the values that are imbedded in roles and social practices also mold social and personal morality.

Yet, the most common way that firms respond to ethical concerns is by drafting a code of ethics. As of 1986, seventy-five percent of all Fortune 500 companies in the U.S. had one. Sometimes these codes resemble a mission statement, sometimes they state a very general set of values, while other codes look more like operating policies. Ethics codes are often drawn up by the legal compliance department of American companies and are considered a first line of defense against illegal activities. Codes of ethics are the easiest way for companies to address ethical issues. Good codes are not just rules of conduct, but statements about what it means to be in that particular company and business. On their own, codes don’t do much and are sometimes ignored. However, they can serve an important function if they introduce constructive dialogue about ethical issues into the organization.

British companies are less enthusiastic about codes of ethics. Some U.K.
companies regard corporate codes of ethics as nothing more than the latest import from Wall Street and of little use to British industry. One executive said, “Our American counterparts may need ethics codes, but we don’t.” She wasn’t implying that the British were more ethical, but rather that they, unlike the Americans, shared a common set of values. In a more homogeneous society with a stronger class consciousness, ethical behavior tends to be imbedded in roles and articulated in virtues related to those roles. As one company official explained, “Who can afford the time and money to write something that normal people will carry out automatically and the bad guys will only ignore?” Nonetheless, the Institute of Business Ethics (IBE) surveyed 300 of the largest British companies. They received 100 usable replies and discovered that 55 of the companies had a code of ethics and 20 of them contained instructions on how to react to a moral dilemma faced in the course of doing business (for example what to do when offered an inducement to recommend a particular product or service).

A study of the top 200 French, 200 German, and 200 British firms indicates that ethics codes are mostly an American practice that traveled to Europe via American subsidiaries. Out of the 184 replies, the authors, Catherine Langlois and Bodo Schlegelmilch, found that 78 companies had adopted codes of ethics. Thirty-five percent of these companies had non-local parents and 19% of them had American parents. (Out of the European companies without codes, the researchers discovered that 22% of them did not have any U.S. connection.) The French had the least amount of companies with codes (30%), the German had the most (51%) and the British fell in the middle at 41%. The German and British companies had stronger U.S. connections than the French and they were also larger. The Langlois/Schlegelmilch report confirmed an earlier study that noted a positive correlation between the size of the company and the adoption of an ethics code.

Comparisons of the content of ethics codes in the Langlois/Schlegelmilch study show that there are national differences in the priority given to certain values. For example, all European codes address employee conduct, whereas only 55% of the U.S. companies do. Over 80% of the U.S. companies mention the customer, while only 67% of the British and German codes do. French companies show the greatest concern for the customer—93% of their codes refer to customer relations. In contrast to the French, the British codes don’t talk much about relations with customers or shareholders. Most U.S. codes discuss business-government relations and 86% mention relationships with suppliers. Less than 20% of the European codes discuss either of these issues. The German codes were distinctive for their tendency to emphasize a moral obligation to innovate and improve technology. Sixty percent of their codes mention it, compared to 20% in France, 6% in the U.K. and 15% in the United States.
The codes are all very similar in terms of the general headings—employee conduct, community and environment, customers, shareholders, suppliers and contractors, political interests, and innovation and technology. But the similarities in codes may not be as significant as the differences. Companies often research other corporate codes before writing their own. Organizations such as The Ethics Resource Center in Washington and the Institute of Business Ethics in London serve as repositories for corporate codes. They also offer assistance to companies who want to write one. This may account for why the codes resemble each other. However, the important things to compare in codes are the ways in which a company differentiates itself through a statement of its values and priorities.

The Langlois/Schlegelmilch study also shows that in Europe ethics codes are very new and appear to be a growing phenomenon. The proportion of European companies with codes rose from 14% in 1984 to 41% in 1988, with most codes adopted in 1986. Fifty-six percent of the respondents from companies without codes indicated that they were “likely” or “very likely” to adopt a code by 1990. This study provokes the question: Why have European companies all of a sudden felt the need to adopt a formal code of ethics?

**Pluralism and Moral Strangers**

Changes in the ethical environment of European business account for the trend to adopt corporate codes of ethics. The first factor is related to size. As companies become larger they require more formalized communication networks. Larger companies, and obviously ones with foreign operations, are likely to have workers, suppliers, and customers from different backgrounds and different value systems. Hence they might feel the need to clarify the company values. Also changes from family-owned conglomerates to public companies may require a firm to reassert its identity and values.

Growing pressure from environmental groups, consumer groups, anti-apartheid groups—all acting under the ever watchful eye of the press—compel some companies to stipulate their policies on ethical issues or risk being caught off guard and put in a potentially damaging position. Furthermore, growing divorce rates, changing family structures, and the diminishing influence of religious institutions make it more difficult to assume that people in the same culture share the same moral values. Mass communication, growing media interest in business, and the increase in public ownership of businesses make it difficult for a company to keep its actions secret.

The upcoming unification of the European market has inspired some European companies to formally articulate their values. Firms and indu-
tries of all sizes consist of a variety of new players. At a number of levels, the European business environment has become more pluralistic and now consists of people who have different sets of values. The free market, which is ideally a meritocracy, tends to break down traditional class barriers, but it also creates new classes. For example in the City of London, the old boy network of brokers from the same class and the same school has been eroded by the intense competition that was unleashed by the Big Bang. City firms needed fast-paced producers, not leisurely gentlemen. After the Big Bang, old timers in the financial industry bitterly complained about the class of street-smart kids who were making a fortune in the City. This new breed of business person is as much of a moral stranger as someone from a different culture. Their values are different, they don’t know about the unspoken customs.

I would argue that the main reason why European companies have started to adopt ethics codes is because the social and political environment of business became more like America’s in respect to the assumptions that managers must make about the pluralism of values within their firms and among their business associates. The pluralist nature of a liberal democracy makes discussions about underlying values mandatory. American society guarantees people the right to determine their moral values and obligations, but it doesn’t really offer guidelines on how to fulfill them. Thus it depends less on roles and traditions and more on laws and formal statements of ethics. Since institutions cannot depend on moral consensus, they must make sure that they articulate a moral point of view. Organizations that operate in liberal societies need to guard against the danger of becoming nothing more than arenas where people act out their preferences. They must create a moral environment that tolerates an individualist and a collectivist vision of morality. Both of these moral visions are problematic. As political scientist Amy Gutmann points out, “Most conservative moralists set their sights too low, inviting blind obedience to authority; most liberal moralists set them too high, inviting disillusionment with morality.”

Many of the British managers complained about the demise of traditional values and the need for formal rules. It’s not uncommon for people to worry about the values of the younger generation. But one feature that seems particularly prevalent in the young people in the U.S. and the U.K. is their lack of faith in the future. Unlike the post war generations, they do not believe that their standard of living will be better than their parents’ and some think that it will be worse. As a result of this fear, they feel that they have to get as much as they can before it runs out. It is difficult for people to act on moral principle when they do not believe that some good will come of it, if not now, then sometime in the future.

Some British managers worried about the impact of intense competition on the values of people in their firm and their industry. One manager said that the business world had become too complex for ad hoc ethical deci-
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Sessions and the company needed to give guidance to its employees. Others seemed to feel a need to reestablish what it was that their company stood for. Some British and European businesses seemed to be going through a crisis of identity and trust. There was a sense among the top managers with whom I spoke that their employees and other business associates had become moral strangers who were no longer dependable.

The Global Economy & Moral Obligations to Strangers

Perhaps the most obvious reason why ethics is on the business agenda is because few businesses are insulated from forces in the global economy. The interdependencies of business cross national boundaries, which means that the modern firm depends on and has obligations to strangers all over the world. This requires a very sophisticated way of thinking about morality. It is far more difficult to think about the moral obligations that we have to strangers than it is to think about our obligations to friends, family, and countrymen. Sociologist Alan Wolfe has observed that the less we live in tightly bound communities organized by strong ties, the greater our need to recognize dependence on perfect strangers. He says, "To be modern, in short, requires that we extend the 'inward' moral rules of civil society 'outward' to the realm of non-intimate and distant social relations." Many business people and politicians have asserted that we need to return to traditional values, which usually means things like honesty, integrity, and promise-keeping.

Another reason why business ethics has emerged as a distinct subject is because the model of morality found in traditional societies is not adequate to make decisions about right and wrong in an interdependent world. Traditional morality rests on the assumptions of a small-scale homogeneous society with authority that is passed down through many generations. Moral obligation is tightly inscribed and limited in scope. Rules are expected to be followed, but the number of people to whom the rules apply are limited, by family, class, gender, geography, ethnicity, or political boundaries. In these tight societies, moral obligation is easy because individuals are not called on to act as moral agents who must chose from a wide variety of options. Authorities define the rules of social interaction. People know to whom they are tied and, consequently, they have obligations. Despite the fact that they are radically different cultures, Italy and Japan present good examples of societies with traditional structures of morality. In both countries discussions about business ethics focus on broadening the notion of moral obligation.

Mario Unnia, founder of the Italian Business Ethics Network, has commented, "Italians are not unethical, they just have a low ethical temperature." Italians lack a strong sense of the state. They operate under the Catholic tradition of law—they believe in making laws, but not enforcing
them (there are more lawyers in Rome than in all of France). Yet, Unnia says that Italians don’t like formal regulations and they prefer self-regulatory mechanisms. The only authority structure that Italians readily accept is that of the family.

On a local level, Italian business can be characterized by parochial values. Unnia thinks that Italy is still a country of “amoral familism,” which the sociologist Edward Banfield described as “the inability to concert activity beyond the immediate family.” One fascinating Italian study compares the way that morality functions in business, government, and the mafia. It shows how each system is ethical in itself, but unethical as soon as it interacts with other larger moral systems. Unnia believes that the business community in Italy has to address two threats, both related to morality based on small spheres of loyalty and affiliation. First, they face the threat of organized crime (the mafia); and second, they face the threats posed by a corrupt and inefficient political system. Unnia points out that “few understand that the internationalization of the economy runs parallel with the process of sharing the values of the international business community.” In Italy, the concept of moral responsibility to strangers at home is a key problem that discussions of business ethics must address.

The Japanese have also struggled to understand their new roles and responsibilities to other cultures. In 1988, the Japanese National Institute for Research Advancement sponsored a study done by the Hitachi Institute called “Future Stage of Corporate Social Responsibility in the Era of Overseas Production.” The authors begin by arguing that because of the rising value of the yen, increasing labor costs, and complaints about the trade imbalance, it will be necessary to move more production overseas. In order to avoid friction in these operations the report says, “It has therefore become necessary to grasp the corporate social responsibility not merely from a domestic level, but also from the international viewpoint.”

The Hitachi report points out that Japan lags behind the U.S. and Europe in overseas production. So in order to compete, Japanese companies will have to adopt a level of social responsibility “at a level no lower than that of the U.S. and the European enterprises, the first comers.” This raises some interesting questions about whose values will form the moral minimum in international business. History tells us that the ideology of the most powerful tends to dominate.

To a Westerner, the Japanese concern about social responsibility does not appear to stem from a “good will” or a moral impulse. It is based on decreasing friction between overseas operations and their host country. Strikingly absent from the report is the desire to assert any Japanese values except for the social value of harmony. The report tells us that in Japan, corporate responsibility includes such things as job security, import promotion, and price stability. It says that soon companies may add to this list the obligation to have “countermeasures toward decreasing political friction.”
The Hitachi Report offers three guidelines. Two of them are relativist in nature: “think globally, and act locally” and “when in Rome, do as the Romans do” (the report adds that you sometimes have to do more). The third asserts the need to act with “enlightened self-interest.”

Basically, “enlightened self-interest” comes down to working with other cultures’ values and expectations, so that Japanese companies can fulfill their corporate responsibility at home. The Hitachi Report describes how other cultures think about social responsibility, not how Japanese companies should think of it. It observes that U.S. companies tend to contribute to community projects. (In February of 1990, the Japanese government began offering tax breaks to companies who give money to philanthropic organizations in the U.S.). Individuals in British firms take the lead in charity activities. In West Germany, projects geared towards the construction and maintenance of society are usually led by the government. According to the study, the major emphasis of social responsibility in Asia is not on contribution to local projects, but on projects that contribute to the country’s economic growth such as training and technology transfer.

It is interesting to compare the task of Japanese business ethics with that of Italy, the U.S., and Europe. If Italian business suffers from familial amoralism, the Japanese might be said to suffer from national amoralism. Both business cultures need to expand their notion of moral responsibility to strangers. For the Italians this means that they need to develop a stronger concept of the common good within their national business community. The Japanese need to expand their domain of moral obligations beyond their country. They seek to understand how their common good is related to caring for the common good of other cultures. Americans, on the other hand, are sometimes charged with being ethical imperialists. They need to develop means for sorting out which values to keep and which ones to reconsider when doing business abroad. The Europeans, faced with the prospect of 1992, are caught somewhere in between all of these. Internally, there seems to be less consensus on what is right and wrong in business; and externally, there is a desire to maintain national identity and values in a unified European market and a global economy.

**Ethics and Development**

So far I have talked about how political philosophy, public opinion, deregulation, organizational structure, greater pluralism in the workforce, organizational restructuring, scandals, the media, and the globalization of business have inspired discussion about business ethics. If the above phenomena have made Western and Japanese business people wax philosophic about ethics, one wonders how the Eastern European nations and the Soviet Union will treat the ethical issues related to the changes in their political and economic systems. The shift from a totalitarian state with a centrally
planned economy to a democracy with a free market, marks a radical
change in the responsibilities and obligations of individuals and business.
The success of the free market and democratic institutions will depend on
the ability of business people to act ethically towards employees, custom-
ners, suppliers, and other stakeholders and to act responsibly towards society
(they shouldn’t forget why communism was once considered an attractive
alternative to capitalism).

For developing countries, the question of business ethics is inseparable
from the question of how to make a free market function. What kinds of
moral, as well as legal and political checks and balances need to be in
place? A manager from Bhutan (which is one of the poorest nations in the
world) said that his country had sealed its borders because it wanted to pro-
tect itself from the corrupting influence of Western values such as lust,
materialism, and disrespect for authority. When asked if the West had any
good values. He said yes, “I like the way they do business.” He went on to
say that Western business people deliver on time, they take back goods if
the quality is poor, and they usually don’t try to fool you by substituting
orders with low quality goods or cheating on the weight or quantity of an
order. Also they don’t ask for special payments or change the terms of the
agreement. These are the basic ethical practices that guide business trans-
actions in the major industrialized countries. Underlying these practices,
however, is a whole framework of social, political, legal, and economic
checks and balances that are often absent or inoperative in developing coun-
tries.

Corruption as a Barrier

Many a world-weary business person will tell you that “when in Rome, do
as the Romans do” is the wisest policy. This strategy may still prove to be
successful for foreigners, but it may no longer be a successful posture for
the locals to take, especially if their customs inhibit the development of
business and if there is a competitive market for what they have to offer. In
the Dominican Republic, academics from law, business, and economics,
along with some members of the business community are keenly interested
in the impact of corruption on their economy. One business professor
pointed out the ways in which corruption created barriers to entry into local
business. He said, “How can this country encourage the entrepreneurship
necessary for development, if you can’t even open a fruit stand without first
paying bribes?” According to one study, it takes 260 days to organize a
company if you don’t pay bribes and about 30 days if you do. Although
the government offers a number of attractive incentives to foreign business,
they often do not compensate for the barriers caused by time-consuming
bureaucratic red tape.
Corruption in the political, judiciary, and civil service systems result in poor enforcement of laws and regulations. Powerful Dominican businesses are not held accountable to any institution. (As one academic pointed out, there is no Spanish counterpart for the word “accountability.”) Corruption also leads to cynicism about ethics and a sense that without social justice, life is random. A Jesuit once asked a poor woman why she bought lottery tickets. She said, “my whole life is a lottery, when I cross the street, I don’t know if a car will hit me, when I go to the doctor, I don’t know if he will have any medicine, and if I go to the store, I don’t know if it will have food on the shelves.” When you look at a country like the Dominican Republic, you see what happens to an economy when the social and ethical infrastructures are corrupt. Business tends to be private and consolidated into the hands of a few families. Intense poverty and cynicism about public officials support the ethos of amoral familism.

The one institution that does seem to function well in the Dominican Republic and a number of other Latin American democracies is the mass media. There are 6 million people in the Dominican Republic. The country has 10 national newspapers, 125 radio stations and six national television stations. The mass media are privately owned and very competitive. Freedom of the press is one constitutional right that is taken seriously. (It’s interesting to note that for the past 30 years the Dominican Republic was ruled by Joaquin Balaguer and Juan Bosch, both of whom are respected authors of a number of scholarly books.) Even the poor and the illiterate listen to the news daily. As always, scandal sells. While citizens may know that corruption is common in politics and business, reading about specific cases elicits outrage and shapes public opinion. In recent years, public opinion has begun to put pressure on the government to enforce laws. As we see in industrialized countries, the media and public opinion can provide social rather than legal sanctions that influence the standards of business ethics. In some cultures, loss of face or damage to the family name are much stronger incentives for good behavior than legal threats.

**Corruption and the Paternal State**

The new Eastern block democracies might avoid some mistakes by looking at how the legacy of State intervention in the economy contributes to corruption in Venezuelan business. According to business ethics professor Rogelio Pérez Perdomo, for the past 50 years the State has had the strongest influence on the life of business. This is due to decades of protectionism and large scale projects in basic industry. Perdomo defines corruption as “the use of public funds for individual benefit” and “a way of doing business characterized by collusion between politicians or public servants and private industry where both parties obtain exaggerated profits.”
ally, business people regarded the government as a wasteful, irritable, somewhat unpredictable father-figure which has a soft-heart and can be influenced.

The state plays a very active role in regulating and promoting business. The civil service is corrupt in Venezuela; however, unlike the Dominican Republic corruption is not just a result of low wages and incompetence. According to Perdomo, the Venezuelan system is based on the assumption that all civil servants are dishonest. The government bureaucracy designed a complex web of rules and regulations for keeping its employees in line. The number of regulations is so formidable and information in this system so unreliable, that business developed its own informal system for dealing with government, based on personal relationships. These informal networks are the only way of guaranteeing survival and they have become the normal way of doing things.36

Examples of these types of informal networks abound all over the world. In the socialist countries, the black market emerged as a more efficient alternative to the official economy and it often worked in conjunction with “red collar crime” in the government, bureaucracy. In Chile, bureaucratic rules and regulations governing property ownership and services were so complicated that a shadow economy emerged for land ownership and services.37 Perdomo points out that the informal networks actually become “democratized” (or more like a free market) when they move from personal relationships to money relationships—i.e., you don’t need connections, you just need cash.

The irony of these informal networks is that the only way government reformers can combat them is through more legislation, which only fuels the need for informal networks. The moral outrage expressed by Venezuelan business people is not about the everyday use of the informal network, which basically provides a short cut for getting what you would otherwise get from the government. They are concerned with the cases of those who use their political contacts to get privileges, credits, or permits that they don’t qualify for, or when contacts are used to make excessive profits.38

Corruption is perceived to be a widespread evil in Venezuela today. Perdomo speculates that some business people are simply jealous of the others who receive special benefits. There is a sense that when one businessman gains unfair benefit, he hurts others. The public tends to blame corruption for Venezuela’s economic woes. The disparities between the rich and poor continue to grow, so corruption in business and government is perceived as an issue of social justice. The middle class lives in houses that are surrounded by fences and have bars on the windows. In 1989, there were bread riots in Caracas. The press doggedly reports each scandal. One enterprising publisher has even put out an encyclopedia of corruption to keep the public up to date on scandals in business and government. She says that it will be many volumes in length.39
In Venezuela, discussions about business ethics are filled with emotion and frustration. Many are fed up with having to use informal networks to do the job that government should be performing. They seem morally disgusted with some of the middle men with whom they must deal. Yet if they stop using these networks, they will not be able to survive. From the perspective of business, corruption will only be eradicated if the system of government regulation and bureaucracy is overhauled. Basically, the government needs to remove what is left of its mercantile past. Perdomo predicts that future scandals will occur in sectors of the economy where there is government intervention and investment. When the government gets involved, goods and services are not supplied by market mechanisms, which means that connections and grease payments are necessary in order to get contracts in these areas. (This seems to be a problem with government contracts everywhere.) Thus, a large part of the discussion of business ethics in Venezuela focuses on favoritism in political system and the civil service. Yet, some business people believe that you can’t just blame corruption on the State; business also plays its role.

Conclusion

Some people wonder whether discussions of business ethics are the luxury of affluent societies and prosperous businesses. They argue that developing countries and struggling firms are more interested in survival than the niceties of ethics. Yet, in Venezuela, and to some extent the Dominican Republic, similar discussions about corruption take place amid the poverty, unemployment, and astronomical inflation.

The historian Karl Polanyi observed that: in preindustrial societies, economic relations tend to be imbedded in the social sphere; in industrialized societies, social relations tend to be embedded in the economic sphere. One way to understand the meaning of the current conversation about business ethics is that we are attempting to discover the kinds of social, moral, and legal arrangements that are necessary for a free market to function. This is particularly true in developing countries.

But most American and European managers usually don’t talk about business ethics in these terms. On the level of every day life, business managers worry that they can no longer depend on a workforce with similar moral values. Today, managerial problems often center on issues related to trust and loyalty. In liberal societies social institutions like church, family, education, and the state are less effective at shaping a coherent set of moral values in citizens. Thus organizations have to create norms to guide employees, while at the same time tolerating a variety of individual values.

Businesses in Europe and the U.S. now play a more visible and active social role. They are celebrated and condemned for their affect on the environment and they are encouraged to take ethical and political stands on issues like South Africa. This puts the corporation into the public role of a
moral agent, which requires business leaders to develop sophisticated positions on a variety of social and ethical issues. The obligation of business to take on more social responsibilities seems to grow as governments become either less able or less willing to shoulder them. Where business is perceived to be more capable than government, the public has begun to expect action.

In industrialized and developing countries, discussions about business ethics express a need to expand traditional notions of morality from family, company, and country to a variety of strangers. This is not because businesses have some new moral mission, but because they are learning some painful lessons about what happens when they don’t coordinate their own interests with those of other stakeholders. The emerging interdependence of economies may require all participants to adopt certain ethical understandings about business. Interesting questions for the future research are: Who will set the standards? What will the standards be? And most importantly: How will those standards be determined? On a formal level, the framework for ethical norms will be set by regulations, trade agreements and at talks such as the Uruguay round on the GATT. But the actual standards of ethics and social responsibility will be established by the daily policies and practices of local and multinational companies and those who run them. This is why the current international discussion of business ethics is so complex and so important. More and more, business leaders find themselves facing problems that require them to choose between actions that are based on existing norms and those that are based on some higher ethical standard. The later course of action requires bold leadership and moral courage because, as we all know, ethical behavior doesn’t always pay—and even when it does, it often pays late.

References

6. Some of my most fruitful conversations took place at a Ditchley Foundation Conference called “Maintaining Cultural and Ethical Values in a Free Market.” Unfortunately, the proceedings of Ditchley conferences are not for attribution. Portions of this paper were delivered at the following Universities: St. Gallen University, Nijenrode Business School, Instituto De Estudios Superiores De Administracion, St. Johns College (Cambridge University), Green College (Oxford University), and The Stockholm School of Economics. I am grateful for the comments of those in attendance.

8. Here I am working from the assumption that the meaning of a term emerges from the way in which people use it. While all people may not have the same definition of this term, their understanding of the term resembles in some way the understanding that other people have of the term. For complete explanation of this theory of meaning, see Ludwig Wittgenstein, *Philosophical Investigations*, translated by G.E.M. Anscomb, (New York, NY: Macmillan, 1968).

9. This world view was particularly strong during the Victorian era and was expressed by British writers such as Ruskin, Dickens, and Carlyle. In the U.S., the Progressives shared these same fears. For the most part their worries were justified. Child labor laws, zoning restrictions, liability laws, health and safety regulations, and anti-trust laws were enacted in both countries to moderate the seamy side of capitalism.


14. For example, according to Aristotle, the goal of a liberal arts education is to teach people how to live in a free society. In particular, Aristotle believed education gave people the ability to enjoy their leisure (*skolē*), which does not mean rest or recreation, but rather spending time doing something that is worthwhile and valuable for its own sake, not for the sake of some external or instrumental good. See Aristotle, *Politics*, Bk. VIII, Ch. 14.


21. For example, in Germany a large part of the public discussion about business ethics centers on environmental issues.


24. Ibid., p. 2.


31. Ibid., p. 2.

32. For a more complete description of morality within a national domain, see Ruth Benedict, *The Chrysanthemum and the Sword* (Boston, MA: Houghton Mifflin, 1946).

33. The quotes are from a participant in a management seminar that I taught at The Oxford School of Tropical Forestry, Oxford, September 26, 1989.


36. Ibid., p. 560.


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