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Leadership and Business Ethics

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For John Bishop
“Blessed are the gentle,
for they shall inherit the earth.”
(Matthew 5:5)

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Introduction

Gabriel Flynn and Patricia H. Werhane

This book points to a necessary relationship between ethics and business; the success of such an alliance depends directly on sound business leadership. Without the sort of leadership that upholds the dignity and rights of employees and clients, as well as the interests of shareholders, even the most meticulously prepared ethics statements are destined to founder, as evidenced at Enron and elsewhere. Over the past 30 years or so, since business ethics became established as a discipline in its own right, much progress has been made in the ethical conduct of business at all levels. In short, business people, like politicians, doctors and church leaders, have come to realize that it is not possible to avoid involvement in ethics, for much of what business people do and cannot do may be subject to ethical evaluation. While the history of business ethics as currently practised may be traced to the medieval and ancient periods; our principal concern is with developments in the field over recent decades. A consideration of how the topic has been treated by the *Harvard Business Review*, the business world's leading professional journal, provides helpful insights into past progress and present challenges.

In 1929, just as business ethics was beginning to evolve, Wallace B. Donham in "Business Ethics – A General Survey" provides a precise definition of business ethics: "We start here to-night a new foundation to deal with one of the greatest of topics – a subdivision of ethics; for business ethics with its own peculiar characteristics is, after all, a subdivision of general ethics."[1] Donham identifies the principal areas of concern for business ethics. First, "the internal relations of the business group, how businessmen are to live with businessmen"; and, second, "the external relations of the group, how business is to live with the community."[2] Not surprisingly, he asserts that the latter contains the most significant and neglected areas of concern to business. The significance of Donham's essay lies in its recommendations concerning "business and its responsibilities." Fully cognizant of the "basic instincts of our common humanity, such as fear and selfishness, as well as the desire to stand well with our peers,"[3] Donham points to the value of corporate social responsibility, albeit in embryonic form. As he remarks: "Our new group of businessmen must

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G. Flynn (ed.), *Leadership and Business Ethics*,

develop and enforce a group conscience if the evolution of business ethics is to be speeded up; a group conscience which will hold not only the individual but the whole group to both personal and group responsibility for relations with the rest of the community."[4] While attributing limited value to law and codes of ethics in the regulation of business, Donham ultimately points to the power of the community and of public opinion for the establishment and maintenance of ethics in business, in which domain effective leadership is indispensable:

> Just as the law is inadequate to solve business problems because it is slow to operate and static in its nature, so codes of ethics have their limitations and their dangers. [. . .] It is the thinking of the tribe which determines the character and type of tribal leadership. If the community expects much from its leaders it will get much. If it expects and honors cynical money-making and esteems such accomplishment, it will produce this type of leadership. [. . .] A discriminating public opinion, approving and rewarding socially sound business accomplishment, and ostracizing the socially unsound, will bring about a real contagion of health. For most of our ethical and social standards in all areas are made effective, in the last analysis, by the force of public opinion.[5]

In a paper co-authored by Edmund P. Learned, Arch R. Dooley and Robert L. Katz in 1959 entitled "Personal Values and Business Decisions," an important theme emerges, one that reflects the then growing concern among "thoughtful businessmen" for the spiritual implications of business. As the authors remark: "Symptoms of this concern are to be found everywhere. A tremendous number of speeches and articles on "religion and business" are receiving eager and enthusiastic response."[6] But the clearest evidence of the nature and strength of business's growing concern with spiritual values was evident in the Harvard Business School Association's 50th Anniversary Conference in September 1958, which had as its theme "Management Mission in a New Society." It is significant that every major speaker stressed the importance of more attention to spiritual values.[7] The significance of spirituality for business was perhaps best encapsulated at that conference by the distinguished historian Arnold J. Toynbee. He pointed out that "no society has ever flourished without a spiritual mission; the quest for material progress alone is insufficient to spur men on to the achievements which are required to create an enduring, dynamic, progressive nation. [. . .] It is significant that the great concern for more spirituality in business comes at a time when our material progress has achieved extraordinary heights."[8] The chapter furnishes a helpful definition of spirituality which, in view of persistent serious misunderstandings of the term, may be quoted in full:

> There is nothing mysterious in the word spirituality. Spirituality in business, as we see it, is the process of seeking to discover, however imperfectly, God's law in each everyday work situation, and of trying to behave in each situation as nearly in accord with that law as we are able to. [. . .] Spirituality means making a continuing, conscious effort to rise above these inevitable human limitations – a maximum endeavor to comprehend the ultimate values, the truth and the reality of the orderliness of the universe – and to live in accordance with this reality.[9]

To the authors of this auspicious essay "neither the proposition that business and spiritual considerations are separable nor the view that good ethics is good business is a fully adequate or satisfying guide for action."[10] Both of the aforementioned options are rejected as inadequate because neither recognizes the inevitability of conflict or the complexities involved in making business decisions. It is only by acknowledging that every business decision brings the business person into a conflicting set of forces in which he/she is obliged to choose between personal values and ultimate loyalties that business leaders can hope to rise to the difficult challenge of making the necessary discriminating business judgements. The importance of the contribution of Learned, Dooley and Katz lies in their advocating participation in a process of discernment which implicitly recognizes that "there is a spiritual significance to every phase of a man's work, be it in business or any other calling."[11]

The question of conflict involved in business decisions, referred to above, emerges again in a 1977 essay in the *Harvard Business Review*, by Steven N. Brenner and Earl A. Molander, entitled "Is the Ethics of Business Changing?" As part of a lengthy survey on business ethics and social responsibility completed by 1,227 *Harvard Business Review* readers, the editors attempt to establish how US readers think compared with 1961 when Raymond C. Baumhart, SJ, conducted a survey on business ethics. The authors concluded that "today's executive often faces ethical dilemmas and observes generally accepted practices which he or she feels are unethical."[12] The responses to the 1976 survey also indicate that ethical codes can be most helpful in situations where there is general agreement that certain unethical practices are widespread and undesirable. However, codes are considered to be of only limited use to executives for either controlling outside influences on business ethics or resolving fundamental ethical dilemmas. The survey's authors, in a clear reference to the enforcement problems inherent in ethical codes, conclude that codes "are no panacea for unethical business conduct."[13]

Perhaps the most interesting result of the 1976 *Harvard Business Review* survey is a new view of social responsibility. "The current revival of interest in business ethics coincides with a renewed focus on corporate social responsibility".[14] While the survey disproves the caricature of the American business executive as a power-hungry, profit-bound individualist, it also identifies two barriers to social responsibility. First, corporations still resist measures when trying to put social responsibility into practice. A second major barrier is uncertainty – uncertainty as to what "social responsibility" means. Almost half (46%) of our respondents agree with the assertion that "the meaning of social responsibility is so vague as to render it essentially unworkable as a guide to corporate policy and decisions."[15] In response to the important question: "What do the results mean for managers and students of business ethics?" the 1976 survey shows that respondents favour changes in managerial outlook and managerial actions. These changes are summed up as follows: "It seems to us our respondents are saying that managers facing ethical dilemmas should refer to the familiar maxim, "Would I want my family, friends and employees to see this decision and its consequences on television?" If the answer is yes, then go ahead. If the answer is no, then additional thought should be given to finding a more satisfactory solution."[16] Regardless of the preferences or choices of business leaders in the matter of business ethics and/or social responsibility, the survey's authors argue convincingly that the manager "has to realise that he must continue to bear the criticism of the larger society in both the business ethics and corporate social responsibility areas."[17]

We shall refer briefly to two further essays in the *Harvard Business Review* which address important topics of direct relevance to the present project, namely, business ethics and the role of the business schools. In 1993, Andrew Stark in an incisive chapter entitled "What's the Matter with Business Ethics?" notes that "far too many business ethicists have occupied a rarefied moral high ground, removed from the real concerns and real-world problems of the majority of managers."[18] As a result, managers, though they know they cannot safely dismiss the enterprise of business ethics, do find business ethics off-putting in practice. Stark observes that a number of prominent business ethicists have called for fundamental changes in business ethics as part of an attempt to offer new approaches of value to both academic business ethicists and professional managers. But, even those business ethicists who have gone beyond the question "Why be moral?" as part of an effort to address some of the hard ethical questions faced by managers, are dogged by the charge of failing to engage with the world of practice. As Stark comments "Even when business ethicists try to be practical, however, much of what they recommend is not particularly useful to managers."[19] In response to the "crisis of legitimacy" affecting business ethics, some business ethicists have begun to engage with "the messy world of mixed motives."[20] Robert C. Solomon's *Ethics and Excellence: Cooperation and Integrity in Business*,[21] provides a very useful contribution to a new business ethic by advocating an Aristotelian view of virtue that is moderate, practical and useful to managers. Ultimately, business and ethics must speak the language of profit as well as of virtue. As Stark remarks:

> Moderation, pragmatism, minimalism: these are new words for business ethicists. In each of these new approaches, what is important is not so much the practical analyses offered [as the authors acknowledge, much remains to be worked out] but the commitment to converse with real managers in a language relevant to the world they inhabit and the problems they face. That is an understanding of business ethics worthy of managers' attention.[22]

Our consideration of the *Harvard Business Review*'s treatment of business ethics concludes with a trenchant critique of many business schools that are deemed to be out of touch with the real world of business and management. In an essay entitled "How Business Schools Lost Their Way" (2005), Warren G. Bennis and James O'Toole comment: "Too focused on "scientific" research, business schools are hiring professors with limited real-world experience and graduating students who are ill-equipped to wrangle with complex, unquantifiable issues – in other words, the stuff of management."[23] In summary, many business schools have adopted a *scientific model* which treats business like an academic discipline, and gauges success according to the excellence of research and the volume of publications in top academic journals rather than on the basis of business practice. As the business schools became focused on professorial research which, though it helped to eliminate the "vocational stigma that business school professors once bore," also resulted in deleterious consequences for graduate business education, deemed to be "increasingly circumscribed and less and less relevant to practitioners."[24] According to Bennis and O'Toole, the "new emphasis on scientific research in business schools remains, for the most part, unspoken. Indeed most deans publicly deny it exists, claiming that their schools remain focused on practice."[25] The bitter complaint against the business schools and universities is, in the words of the columnist David Brooks, that they "operate too much like a guild system, throwing plenty of people with dissertations at students, not enough with practical knowledge. . .who teach students to be generalists, to see the great connections."[26] In order to regain relevance and "to balance the goals of faculty members with the needs of other constituencies," Bennis and O'Toole urge the business schools to "look to their sister professional schools in medicine, dentistry and law for guidance."[27] The most innovative law schools offer the best model for business because "they tend to award excellence in teaching and in pragmatic writing. Research is an important component of legal practice and education, but most of it is applied research, and its vitality is not equated with the presence of a scientific patina."[28] In the final analysis, it is a matter of balance, as Bennis and O'Toole acknowledge in pointing to a few top-tier business schools such as Harvard in the USA and the IESE Business School in Spain where "continued emphasis on case studies makes practitioners an integral part of the educational process."[29] As part of an urgent curricular reform in the business schools, what is proposed is that "the entire MBA curriculum must be infused with multidisciplinary, practical and ethical questions and analyses reflecting the complex challenges business leaders face. [. . .] Other professional schools have carved out standards that are appropriate for their various professions; now business schools must have the courage to do the same."[30]

The present volume seeks to contribute to a more adequate coalescence of ethics and business with innovative models for such coalescence, for the mutual benefit of business ethicists, professors teaching in the undergraduate and MBA classrooms, corporate executives, and businesspeople.

In the opening contribution to the volume, Domènec Melé, Professor and Chairperson of the Department of Business Ethics and Chairperson of Economics and Ethics at the IESE Business School, University of Navarre, Spain, in a chapter entitled "Business Ethics: Europe versus America," traces the development in business ethics and such related fields as Corporate Social Responsibility (CSR) during the past 25 years, starting with North America and Europe. "In this review, several factors related to business ethics will be considered, comparing Europe and the USA, namely, cultural environment, business activities, public authority, civil society and the academy." Melé concludes "by discussing how interdependence of the above-mentioned factors, as well as the cultural and political legacies in Europe and America can give a reasonable explanation of the differences." The remaining contributions to the volume are divided into three parts: Part I examines the role of business ethics at the level of individual managers.

Margaret Benefiel, Lecturer at the Andover Newton Theological School in the USA and holder of the O'Donnell Chair of Spirituality at the Milltown Institute of Theology and Philosophy in Dublin, Ireland (2003–04), by linking discernment and leadership, seeks to change the supposedly flawed decision-making processes of senior business managers.

Gabriel Flynn, Head of the School of Theology, Mater Dei Institute, Dublin City University, Dublin, Ireland, seeks to contribute to a vision for leadership in business based on a recovery of virtue. The essay draws principally on the writings of the classical philosopher Aristotle and of the contemporary philosopher, Josef Pieper. The key question posed by Flynn is: "Why is it problematic to live a virtuous life?" His suggestion that Pieper's *Leisure: The Basis of Culture* (1952) provides the most effective antidote to the compulsive busyness of modern western business-dominated, materialist culture, if acted upon by leaders of business, could help transform work and family. Flynn concludes that the message of virtue is a message of hope and attempts to find plain language to articulate its value to those engaged in business or concerned with the formulation of government policy.

Paul T. Harper, Director, LEAD Summer Business Institute, Darden School of Business, University of Virginia, USA, responds to a keynote address given in 2005 by Richard Rorty to the Society of Business Ethics entitled, "Is Philosophy Relevant to Applied Ethics?" By analysing Rorty's address, Harper provides his own answer to Rorty's question. His approach differs from Rorty's by specifying the contributions of specific philosophies and philosophers rather than stressing the interdisciplinary nature of good theoretical inquiry. Unhappy with the interdisciplinary approach to moral theory, Harper ultimately advocates the approach of the philosopher Michel Foucault. Through a consideration of Foucault's characterization of the uses of the critical method and the critical outlook, Harper demonstrates that critique allows for a broader and clearer pedagogical platform for moral development and leadership cultivation. Fully aware of the responsibility of ethicists to provide intellectual resources that help businesspeople to identify and then work through the moral challenges of today's commercial environment, Harper concludes by offering one kind of pedagogy that he believes would serve to reinvigorate business ethics and make ethical discourse more of a reflection of our contemporary concerns.

Edwin M. Hartman, the Peter and Charlotte Schoenfeld Visiting Faculty Fellow and Visiting Professor of Business Ethics in the Stern School of New York University and an Academic Advisor with the Business Roundtable Institute for Corporate Ethics, contributes a chapter entitled "Socratic Questions and Aristotelian Answers: A Virtue-based Approach to Business Ethics". Hartmann poses important questions: How do we decide what businesspeople ought to do? What is right and what is wrong in business? He argues that an Aristotelian approach to business ethics shows how we can answer these questions. Hartman's salutary advice for the leaders of business is that "ethics is neither arcane nor certain. Being ethical is primarily a matter of being a person of good character, with virtues, emotions, values, and practical intelligence to match."

Brian Leavy, AIB Professor of Strategic Management at Dublin City University, Dublin, Ireland, in a chapter entitled "Inspirational Leadership in Business and Other Domains", proposes a contextual perspective on leadership which he claims "has important implications for the kind of education that should serve top leaders best in their ongoing development." Leavy argues that "deeper insight can be gained into the nature of inspirational leadership at the institutional level by viewing it as a dynamic process, the outcome of which is shaped by three main elements: context, conviction and credibility." His most important questions are posed in a rather implicit way: In today's changed society, characterized by a dearth of ethical leadership, are the leaders of business also the leaders of society? Given the contextual character of strategic leadership: Is an inspirational leader an ethical leader, someone who changes society? The chapter concludes by identifying a number of developmental priorities for individuals aspiring to be institutional leaders that are linked to this perspective.

James G. Murphy, SJ, Lecturer in Philosophy at the Milltown Institute of Theology and Philosophy, Dublin, Ireland, in a chapter entitled "People in Business: Context and Character" asks: "what have business and ethics to do with each other?" He says that "the differences may be of a complementary kind," and more importantly, "that business is far more grounded in ethics than is often realized." Murphy argues that the "marginal status of business ethics, even while accompanied by lip service for public consumption, may in part be due to misunderstanding ethics. [. . .] The executive who secretly thinks business ethics a wasteful irrelevance (except for emergencies) has forgotten what makes a company successful." This essay shows that virtue ethics is a first step in the direction of a more adequate response to the leadership issue. Murphy concludes by saying that ethics should be about character formation and not a dilemma-solving exercise.

Johan Verstraeten, Professor of Ethics at the Catholic University of Louvain, (KU Leuven) Louvain, Belgium, in a chapter entitled "Responsible Leadership beyond Managerial Rationality: The Necessity of Reconnecting Ethics and Spirituality", proposes a view of leadership that is not only transactional, but also transformative. Such leadership requires the capability to motivate people to "transform their own self-interest into the interest of the group through concern for a broader goal." According to Verstraeten, "it has never been more difficult to develop authentic leadership as a consequence of the fact that our late-modern culture hinders or sometimes even blocks the development of leadership qualities." The main reason for this, in his view, "is the artificial separation between ethics and spirituality." In this chapter, Verstraeten seeks to "clarify some of these cultural obstacles and describe how spirituality can generate the basic conditions for the moral responsibility of leaders."

Part II, in a broadening of the field, considers how business ethics operates at the organizational level in companies and corporations. Inspired by John Bogle's book *The Battle For The Soul Of Capitalism*, Ronald Duska, Professor of Ethics at the American College, USA, and Julie Anne Ragatz, Doctoral Fellow at the American College, in a chapter entitled "How Losing Soul Leads to Ethical Corruption in Business" seek to address the question of corruption in business as the loss of soul. They pose an intriguing question: How would Aristotle analyse what is going on in the scandalous behaviour of business in the twenty-first century? Their response is very simple: "business has lost its soul." In a statement that should be obligatory reading for all business ethicists, Duska and Ragatz write: "The first dogma of the church of capitalism becomes the mantra: "The primary and only responsibility of business is to maximize shareholder wealth." Business is viewed primarily as a means to getting wealth." The most detrimental result of a widespread belief in this dogma throughout the business community is that "it creates a sense that there are no limits. Because there is never enough and the end of wealth accumulation justifies any means, there is no limit on the means used to accumulate the wealth except those forced on one by the law, and this limitation is circumscribed as much as possible." Enron, which is not unique, is analysed as an example of this type of corruption. In a direct challenge to the business schools, "the Provider of Executive Talent," Duska and Ragatz call for a change of direction away from the current practice whereby "up- and- coming business students are not taught to seek their interests insofar as the law allows, but insofar as they can get away with it."

David Smith, Associate Professor in Medical Ethics at the Royal College of Surgeons in Ireland, Dublin, and Louise Drudy, a clinical scientist at the Royal College of Surgeons in Ireland, in a chapter entitled "Corporate Culture and Organizational Ethics" take up the question of corporate culture and organizational ethics in the Irish health sector. In a statement which highlights the role of leadership in business and health, Smith and Drudy remark: "It is largely in how people treat other people within the company, the manager, the secretary, retailers and so on, that the ethical climate of the business is set." A comparison is made between business norms and professional health care norms of practitioners in health care institutions. The authors offer a review of the principles which govern business ethics and health care ethics; this demonstrates a number of common features. "But more importantly they also highlight the potential for diversity and conflict. Business ethics tends to put the aim of the company or organization as primary while health care tends to place the emphasis on the individual patient." In health care, "organizational ethics is the integration of patient values, business ethics and professional ethics. Organizational ethics must work to integrate these perspectives into a unified organizational programme that provides and sustains a positive ethical climate within each health care organization. To achieve this, the organization must institute processes to ensure that this definition is understood and advanced by all in the organization. One of the ways of ensuring that this process of integration is activated is through the establishment of Clinical Ethics Committees." Many health care organizations are now using this sort of instrument. Another option to cope with these dilemmas is through the appointment of an ethics officer.

Paul Whysall, Professor of Retailing at Nottingham Business School, UK, in a chapter entitled "Values in the marketplace: what is ethical retailing?" assesses the role of ethics in the retail sector, an area that is pivotal for modern society. Whysall's contribution poses four key questions: Why have ethical issues become prominent in retailing at this particular time? What philosophical/conceptual bases exist for addressing ethical issues in retailing? Are ethical issues and concerns currently arising in retailing addressed by those bases? How, then, might we conceptualise ethics in retailing? This essay presents a significant challenge to small businesses and multinational corporations for the implementation and enforcement of an adequate ethics. It is interesting to note that Whysall gives a significant leadership role to consumers in the "pursuit of excellence, a search for virtuous retailing." As he concludes: "if we consumers want ethical retailing, we may also have to realign our own shopping motivations and behaviours."

Part III examines how business shapes society and is, in turn, influenced by the demands and expectations of society. It is noteworthy that a clear correspondence emerges between some of the key concerns expressed in our review of the treatment of business ethics in the *Harvard Business Review* (leadership, spirituality, corporate responsibility, and the thorny issue of the relationship between theory and practice) and contributions to the present volume. Some remarks on the question of spirituality and business are germane. In all three parts of the work, questions of spirituality are raised. If, at times, terms other than spirituality are used, including "wholeness" and "integration", a careful reading of the texts indicates that the intended meaning is, in many cases, neither vague nor soft. At the individual level, spirituality issues are often discussed under the heading of leadership (Benefiel, Flynn, Verstraeten). It is also possible to think in terms of a "soul of the organization" (Duska and Ragatz) and even to analyse the role of the organization within society. The treatment of the theme of spirituality and business constitutes a broadening of the field that is in some ways innovative; it requires ethicists and businesspeople to think holistically.

Robert Audi, Professor of Philosophy and David E. Gallo Professor of Business Ethics at the Mendoza College of Business, University of Notre Dame, Indiana, USA, in a chapter entitled "The Marketing of Human Images as a Challenge to Ethical Leadership," addresses an area of profound concern for business ethics because it affects children, women and the environment. As he remarks: "The rapid spread of visual media is enormously influential in the contemporary world. The recent increase in access to the Internet heightens the problem of how to bring ethics to bear in guiding this media influence, especially in marketing. Nothing is ethically more important in marketing than the human images communicated with goods and services. This holds even where what is marketed is inanimate." Audi asks: "Why should marketing be a special challenge for ethical leadership in business and a major topic in business ethics?" "The answer, in large part, is that marketing influences a great deal of human conduct and, indeed, often influences it *subconsciously*." Audi advocates a holistic view of marketing and production "not just in a piecemeal fashion that presupposes a focal target for every product or service." He also makes a further important distinction "between goods and services that need a representation of a person for their marketing and those that do not." The concept of leadership elaborated by Audi is defined in terms of influence rather than competence. The challenge for business leaders, especially CEOs, but also at lower levels "is to keep profits strong while doing ethical marketing." Audi makes important connections between marketing, citizenship and society: "The obligations of ethical marketing are a kind of obligation of citizenship itself. Major companies are important elements in society, and their leadership is important for the culture and well-being of the societies they pervade."

Donal Dorr, an expert in Catholic social teaching from Dublin, Ireland, in a chapter entitled "Alternative Business Ethics: A Challenge of Leadership" examines how spirituality and religions play a part in a new view of ethics and leadership. In the Western world, the understanding of business that has emerged over the past couple of hundred years is one which "assumes that self-interest is the principal motive for action." In challenging "the apparent impregnability and inevitability of the present business ethos" as "grossly immoral", Dorr sees leadership as the key to change. "In the present situation, there is an obvious need for leadership through an *empowerment* of people to take responsibility for what is done in their name by politicians and officials. There is need, too, for the gentle, persuasive *nudging* mode of leadership which can sometimes be more effective in bringing about change than attempts to push people in directions which they are not yet ready to take. But, most of all, there is a crying need for *inspirational* leadership – for the kind of creative actions which catch people's imagination, and for the transparency and raw courage which can convince others of one's sincerity. A key aspect of this inspirational leadership is the gift of communication." Coupled with such powerful inspirational leadership in the great task of humanizing business is "a holistic spirituality [which] can provide valuable insight about the kind of changes that are required. It can also offer inspiration and energy to those who work for change."

Any volume on *Leadership and Business Ethics* would be incomplete without some discussion of a major leadership initiative in business ethics of the United Nations, an endeavour known as the Global Compact. The United Nations Global Compact is intended to increase and to diffuse the benefits of global economic development through voluntary corporate policies and actions. Oliver F. Williams, C.S.C., Associate Professor of Management and Academic-Director of the University of Notre Dame Center for Ethics and Religious Values, analyses the Global Compact in a chapter entitled "The UN Global Compact: The Challenge and the Promise." He outlines the problems that Global Compact brings to the fore and offers some insight from the ethical literature that may address company concerns or provide new ways of thinking about the issues. He further argues that the forum provided by the Compact may be the most effective means to gain consensus on the role of business in society. Significantly, Williams's contribution raises the controversial issue of the meaning and contribution of ethics to the sustainability question. While the Compact offers an outstanding moral vision for businesses interested in meeting the legitimate expectations of society, there is concern centring on accountability issues. The accountability issues are in four major areas: (1) Accountability showing that the globalization of the economy actually helps the poor. (2) Accountability showing that corporate performance matches rhetoric. (3) Accountability that provides legitimacy to a two-tier pricing system and other measures that are designed to assist the poor in developing countries. (4) Accountability in the human rights area; what societal expectations are multinational companies accountable for?

In the 1990s, business ethics seemed to become much more popular, with courses, books and journals proliferating, and bigger companies often hiring their own in-house ethicist. At the 2003 World Economic Forum at Davos, Switzerland, CSR was a major theme, with nearly all participants expressing total, almost religious, devotion to the concept.[31] The two contributions to this volume on this crucial theme show that corporate responsibility cannot be realized without dialogue between business leaders and business ethicists. While there may be a diversification of terminology in CSR, as well as a variety of approaches, ethicists are grappling with a normative question for society, namely, taking responsibility and being fair and honest in a corporate, societal context.

Sandra Waddock, Professor of Management and Senior Research Fellow at the Centre for Corporate Citizenship, Carroll School of Management, Boston College, USA, explores what she calls the paradox of corporate citizenship. In a chapter entitled “Corporate Citizenship: The Dark-Side Paradoxes of Success,” she studies the paradoxical dark underbelly created by strategic success in corporations and their efforts to implement voluntary corporate social responsibility initiatives to demonstrate their good corporate citizenship. In this exploration, she looks at “the tensions of corporate citizenship and responsibility that are created not when there are crises, scandals, or misdeeds, but when the very success of the company’s strategy is itself the source of concern.”

Patricia H. Werhane is Ruffin Professor of Business Ethics and Senior Fellow of the Olsson Center for Applied Ethics; Strategy, Ethics and Entrepreneurship, Darden School of Business, University of Virginia, USA. She is also Wicklander Chair in Business Ethics and Director of the Institute for Business and Professional Ethics at DePaul University, Chicago, USA. Her chapter entitled “Corporate Social Responsibility, Corporate Moral Responsibility, and Systems Thinking: Is there a Difference and the Difference it makes” raises important questions. Contemporary corporate thinking often confuses a company’s moral responsibilities to its core stakeholders with CSR: the extent of its responsibilities to the community. These are related but not identical, and the confusion often leads companies to imagine that corporate philanthropy can cover up or stand in for its moral responsibilities to employees, customers and shareholders. Her contribution to the debate about the extent of corporate social responsibilities broadens the perspectives of ethicists and corporate leaders and effectively sets out one agenda for future research in this area.

While each of the contributions in this collection is distinct, each invites us to examine our own mind sets about corporate responsibility and the future of free enterprise as Western multinational corporations expand into a global economy. The world has become a “village” and what were once thought of as externalities can no longer be dismissed as not part of the decision equation in business ventures. The alleged separation of business from ethics can no longer be a viable approach, if it ever was, as companies move into alien cultures and affect, both positively and sometimes questionably, traditional, non-western and non-industrial mores of local communities. Globalization has challenged our parochial management thinking. This collection of essays helps to refocus our conceptual work about commerce and business practices in this new century of global enterprise.

Notes

1. Wallace B. Donham, “Business Ethics – A general Survey”, *Harvard Business Review* 7 (1929) 385–94 (385).
2. Donham, “Business Ethics – A general Survey”, 386.
3. Ibid., 389.
4. Ibid., 390.
5. Ibid., 393–4.
6. Edmund P. Learned, Arch R. Dooley, and Robert L. Katz, “Personal Values and Business Decisions,” *Harvard Business Review* 37 (1959) 111–20 (111).

7. Edmund P. Learned, Arch R. Dooley, and Robert L. Katz, "Personal Values and Business Decisions," 112.
8. Ibid., 113.
9. Ibid.
10. Ibid., 117.
11. Ibid., 119.
12. Steven N. Brenner and Earl A. Molander, "Is the Ethics of Business Changing?" *Harvard Business Review* 55 (1977) 57–71 (64).
13. Ibid., 68.
14. Ibid.,
15. Ibid., 69.
16. Ibid., 71
17. Ibid.
18. Andrew Stark, "What's the Matter with Business Ethics?" *Harvard Business Review* 71 (1993) 38–48 (38).
19. Andrew Stark, "What's the Matter with Business Ethics?" 44.
20. Ibid., 46.
21. Robert C. Solomon, *Ethics and Excellence: Cooperation and Integrity in Business* (New York: Oxford University Press, 1993).
22. Andrew Stark, "What's the Matter with Business Ethics?" 48.
23. Warren G. Bennis and James O'Toole, "How Business Schools Lost Their Way," *Harvard Business Review* 83 (2005) 96–104 (96).
24. Ibid., 98.
25. Ibid., 100.
26. Ibid., 101.
27. Ibid., 103.
28. Ibid.
29. Ibid., 104.
30. Ibid.
31. Reported in "Two-faced capitalism", *The Economist* (22/01/2004). For a CEO's critique of CSR, see Ian Davis, "The biggest contract", *The Economist* (26/05/2005).

Business Ethics: Europe Versus America

Domènec Melé

Introduction

Business ethics and such related fields as Corporate Social Responsibility (CSR) have undergone considerable development worldwide during the past 25 years, starting with North America and Europe. Several scholars have studied the current situation of this development for both America (Dunfee and Werhane, 1997; Werhane and Freeman, 1999) and Europe (van Luijk, 2001; Zsolnai, 1998; Habish et al., 2004). Comparing Europe and America in business ethics seems interesting not only for academic reasons, but also to understand each other more and to learn from each other's perspectives.

Comparing Europe and the United States has a long tradition, at least since Alexis de Tocqueville published *De la Démocratie en Amérique* in 1835 (Volume 1) and 1840 (Volume 2). Although he focuses on the United States, he inevitably makes frequent comparisons between this country and his home country, France. In recent years, comparisons between Europe and America have been relatively frequent in different areas, including economics, politics, labour issues, social welfare, international relations, culture, and so on; business ethics is no exception. However, comparing Europe and America is not an easy task because neither Europe nor the United States is a homogeneous reality. There are very sensitive differences between the East and the West Coast of the USA, between the Midwest and the South and, in fact, even in each American state. Europe presents an even greater variety. Actually, Europe is a patchwork of different cultures and socio-economic scopes, from the Urals to Ireland. Even if one tries to group Europe into regions, there are considerable differences. Compare, for instance, the Scandinavian countries (Norway, Sweden, Finland, Denmark), the Atlantic islands (Ireland, UK), Central Europe (Germany, Austria, Poland, etc.), Eastern Europe (Russia, Czech Republic, Hungary, etc.), and the Mediterranean countries such as Portugal, Spain, Italy, Greece and partially, France.

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G. Flynn (ed.), *Leadership and Business Ethics*,

In spite of this difficulty, some scholars have ventured to compare Europe and the USA, at least in certain aspects, regarding business ethics and corporate social responsibility, and from different perspectives. Singer (1991) and Vogel (1992, 1993) did so under the question of whether ethical standards are higher in America than in other countries. Langlois and Schlegelmilch (1990) compared corporate codes of ethics between the USA and three European countries (UK, France and Germany). Mahoney (1990) studied differences in teaching business ethics at the beginning of 1990. O'Neil (1986), Mathison (1993) and Murphy (1994) surveyed what European managers think about corporate ethics and they contrast their findings with Americans' views. Maignan and Ralstron (2002) compared corporate social responsibility in Europe and the United States; Doh and Guay (2006) studied differences on some CSR issues in connection with public policy and non-governmental organization (NGO) activism in Europe and the United States. Guillén et al. (2004) studied how business ethics was institutionalized in Spain, comparing American based companies with companies whose headquarters are in Europe. Palazzo (2002) presented an intercultural comparison between American and German business ethics; van Luijk (2001) described European developments in business ethics, with some comparisons with American approaches. Last, but not least, Enderle (1996) and Crane and Matten (2004, pp. 29–31) have presented several major differences on business ethics between North America and Europe.

In this chapter, we will review some of these contributions, while also presenting the personal knowledge of the author, who has been working in the field of business ethics for more than twenty years. In this review, several factors related to business ethics will be considered, comparing Europe and the USA, namely, cultural environment, business activities, public authority, civil society and the academy. We will conclude by discussing how interdependence of the above-mentioned factors, as well as the cultural and political legacies in Europe and America, can give a reasonable explanation of the differences.

Cultural Environments in Europe and America

In the USA, there is great concern for individual freedom, human rights and democracy, as well as a strong awareness of American citizenship. In the European cultural context, one can find a strong sense of social justice, equalitarianism and the will to participate. There is also concern for the environment, human rights and other social issues in developing countries. Many people feel nationalistic about their own country rather than feeling European and there seem to be difficulties in approving a common document like a European Constitution.

Europeans manifest great social expectations of the state to solve structural problems. Actually, most European countries have a strong welfare state, although this has been decreasing in latter years. In America there is a weak welfare state, although it is increasing, and there are low social expectations on the state for solving structural problems. In addition, in some European countries, such as Germany, a sense of corporativism exists.

There are different degrees of confidence in the political system in Europe (high in the Scandinavian countries, low in Eastern countries) and corruption (low in Scandinavian countries). Europeans love the democratic system and the free market system but are probably not as enthusiastic as the Americans. The latter show a high degree of confidence in democracy and free market, as well as equal opportunities to succeed in business and in the crucial role of entrepreneur.

Another difference is the role of religion. In the USA, although there is a full separation of church and state, religion plays a large role in the public arena. Religious people are esteemed and there exists a scrupulous respect for religious freedom and spiritual diversity. In Europe, religion is rarely mentioned in policy and often media and entrainment are satirical or even annoyed by religion or religious leaders. In addition, many Europeans lack awareness of common religious, spiritual and cultural roots. However, many others are in tune with Christian social teaching and appreciate the moral statements of churches and religious leaders (more in some countries than in others). Regarding the place of religion in society, Europeans are clearly divided: near half agrees that religion is too important in society and the other half disagrees.[1]

Arguments given for business ethics in the USA are frequently about the necessity of trust for business. Scandals burrow into public opinion about corporate executives because without trust, the whole capitalistic system, which needs "good business", falls short. In Europe, people have confidence in the whole system, including the role of government and law. The reasons for business ethics and, above all, for corporate social responsibility are economic (Enderle, 1996), namely, avoidance of risks and obtaining a good reputation: two conditions for long-term profitability.

From a business perspective, the respective positions about the roles of the market and government are relevant. O'Neil (1986), from his experience in teaching the "Social and Legal Environment of Business" to both American and European students, realized that they have quite different mentalities in focusing on social issues and government regulations. He said: "European students would stress the need for a central authority with power to regulate economic activity. American students, on the other hand, would assume the laissez-faire, free enterprise position and cite Adam Smith or his modern counterpart, Milton Friedman, as their authority." (1986, p. 64).

Business Practices in Business Ethics and CSR

Business persons in Europe are more and more sensitive to the social responsibilities of business, and reputation (or risk) associated with them. "Corporate Social Responsibility", "Corporate Citizenship", "Sustainable Business" as well as "Business Ethics" have become important challenges for European corporate managers. However, the term "ethics" is less used in Europe than in the USA. Langlois and Schlegelmilch (1990), analysing corporate ethical codes in the UK, France and Germany, found that the word ethics did not appear in the title, with a few exceptions. Instead, equivalent corporate statements used terms such as “code of conduct”, “principles of action”, or a set of “objectives”. These statements become, in practice, an ethical code for the company (p. 523). In the same vein, Enderle (1996) noted that while in the USA there is basically one language and it is easy to discuss business ethics, in Continental Europe, there are multiple languages and many people are reluctant to talk about business ethics. Palazzo (2002) added that whereas many US corporations have introduced formal business ethics programmes, German companies are very reluctant to address normative questions publicly.

In the USA, Corporate Values and Codes of Conduct are common in most big companies (Murphy, 1998), which are generally publicized on the Internet. “Managing for Organizational Integrity” has become an important concept appealing to corporate managers. Ethics Officers or Corporate Ombudsmen and ethical training programmes are common in large American companies. In addition, prominent organizations give annual business ethics rewards. In short, although many challenges remain, business ethics is flourishing in North America (Dunfee and Werhane, 1997). After the financial scandals at the beginning of the 21st century, business ethics has received a new impulse.

In Europe, most large companies have Corporate Values statements and Codes of Conduct. This is particularly true in the case of US-based companies (Guillén et al., 2002), which follow similar practices as in the USA. Genuine European companies seem more concerned for CSR than for ethical codes and ethical training. CSR Managers and Ombudsmen are becoming common in large European companies, while there are practically no ethical officers and few ethical programmes.

Crane and Matten (2004) state that the guidelines for ethical behaviour in the USA are centred on more corporate codes of ethics while in Europe the focus is on the negotiated legal framework of business. This is probably only an approximation. Sometimes, in stressing the importance of CSR, the presence of codes of conduct in Europe is underestimated. Since the middle of 1980s, many codes of conduct have been introduced in Europe. The Swiss company Zeiss introduced a corporate code of ethics as early as 1896 and Mobil France has had a code since 1945 (Langlois and Schlegelmilch, 1990). In the intervening period, an increasing number of companies have adopted a code of conduct or similar provisions.

In America there is a long tradition of corporate community involvement and corporate philanthropy programmes. Actually, businesses have played an active role in the development of many US communities. In Europe, although there are a number of companies with philanthropy programmes and a certain involvement in the community, most European companies do not pay very much attention to the community in which they are operating. A survey carried out in three European countries (France, the Netherlands and the UK) shows that they “do not have a long-lasting tradition encouraging businesses” social involvement”; since, “it is not surprising that few European companies used organizational values to justify their apparent commitment to CSR.” (Maignan and Ralstron, 2002, p. 511)