

Business ethics: a SWOT exercise

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Every so often it is important to step back from the day-to-day matters that occupy our time and energy and consider where we are going. Those who are involved with business ethics have rarely done this. Perhaps it is overdue. The issues are becoming clouded, the context is changing, and the risks incurred in leaving the resolution of business dilemmas to the moral consciousness of employees at all levels are increasing.

It is now thirty-two years since Raymond Baumhart wrote his groundbreaking book *An Honest Profit*.¹ It provided the basis for corporations to look seriously at the way business was conducted in the United States. Using his model, a 1971 survey in the United Kingdom, *British Businessmen's Behaviour*² showed, as he had done, that business conduct was clearly linked to the general standards of behaviour in society. It also indicated that the business community would welcome help in establishing standards or best practice in the form of codes of business ethics. Similar exercises were done in other Western countries, and over the next decade business ethics as a subject of importance to corporations became established. Yet, the topic still attracts some derision: commentators argue that it is 'an oxymoron'. Certainly scepticism as to its practical use is found among academics (not least those from philosophy departments), deans of business schools (particularly in the United Kingdom), and some senior business leaders. Yet there is evidence that multinational corporations, governments and international institutions are taking the topic increasingly seriously.

In 2000, more than 50% of large corporations have corporate ethics policies. These take different

forms: it is usual to include a code of ethics and have someone responsible for its implementation, review and revision. The topic is gradually being included in management education syllabi, and public opinion is being conditioned to make sure that corporations behave like good citizens. Whereas in the 1970s and 1980s business ethics was seen largely to apply to corporate activities *within* a national boundary, in the 1990s the issues became far more complex because of the increasingly cross cultural nature of business activity. At the turn of the century, globalisation is more than an often-repeated cliché, so it is opportune to examine where the subject of business ethics stands. This is particularly pertinent because of the difficulties being experienced by many in formulating effective ethical programmes which are true to core corporate values. Inevitably this paper reflects something of a European or UK bias in the use of illustrative material but the principles are universally applicable.

The model that most readily suggests itself for this examination is a simple SWOT analysis: Strengths, Weaknesses, Opportunities and Threats.

What are the *strengths* of the business ethics scene?

Three suggest themselves:

- a) Larger businesses, governments, international organisations (OECD, ICC, etc.) as well as the general public now see the topic as important.
- b) In the Western world, the importance of establishing ethical standards is increasingly

understood: more than half the larger corporations have codes of conduct and ethics programmes.

- c) Models and techniques are available which enable moral issues to be addressed within companies in ways which lead to solutions consistent with the purposes of business and the common good.

Although the term ethics is difficult to define, its place in business flows from the corporate values and culture of an organisation. In practical terms it influences decisions at all levels (board, management and shop floor). Boards of companies that have considered their basic purpose and values soon realise that guidance has to be provided to all their employees on resolving business dilemmas. In recent decades there have been a series of well-publicised ethical problems involving business (Exxon Valdes, Union Carbide's subsidiary in Bophal, BCCI, Daiwa Bank, and Shell and Brent Spar). Furthermore, there is public concern about incidents of corruption in business, e.g. bribery, profiting by using privileged information (insider trading), and the treatment of corporate whistleblowers. Governments are reacting by introducing laws that encroach on territory previously in the realm of discretion. The general public, having given business a licence to operate with the benefit of limited liability, expects in return high standards of business behaviour. One reaction has been for companies to codify their guidance to employees on how to react to different types of dilemma. Surveys by the Conference Board in the US, the Institute of Business Ethics in the UK, and KPMG in Canada in the 1980s and 1990s have tracked the increase in the number of corporations with codes of business ethics. All these surveys indicate that in excess of fifty per cent now have such codes and ethics programmes.

International public and private organisations are also taking a growing interest in ethical issues involving business, principally in the field of corruption, though whether bribery and corruption are strictly ethical issues, that is, ones where there is discretion in decision making, is debatable. The OECD Convention on Combating Bribery and the International Chamber of Commerce's

work on codes covering extortion and bribery, advertising practice and marketing, as well as the conventions of the International Labour Organisation – all these are indications of the gradual agreement on some common world-wide standards for global business operations.

The format generally used for addressing business ethics issues at company level is known as a stakeholder model. This model requires that a corporation be seen as a person who has a number of different relationships with others with whom it comes into daily contact. These are normally of a long-term nature and require both courtesy and integrity if they are to last. This model has proven successful in addressing both old and new ethical issues. Thus in the 1970s the dominant ethical issue was whether to invest in, and trade with, regimes run on the basis of apartheid. By the late 1990s the number of ethical issues has multiplied as economic activity has become more international. For instance, issues involving employee welfare in the different businesses involved in the supply chain of a corporation present difficult ethical problems. Probably for the first time, companies are now being asked to take into account the ethics of organisations outside their direct control. These range from those of host governments when investing overseas to the working conditions and pay in those companies supplying the corporation. It is not always clear what the highest ethical stance is, but the stakeholder model is proving useful for analysing and giving practical guidance on the issues.

What are the *weaknesses* of the business ethics scene?

- a) Far too many business leaders still can see no point in having an ethics policy or code of conduct in their organisations.
- b) Where ethics programmes and codes exist, far too few are embedded in the corporate culture.
- c) The values inherent in most corporate ethics programmes are obscure or non-existent.
- d) There is insufficient involvement of corporations in the evolving discussions to produce a Global Statement of Business Principles.

This latter point is exemplified in a quote from a letter from the Chairman of a large UK corporation when asked whether his organisation had a code:

“... we do not have a code of ethics, nor for that matter a business mission statement, such as is conventional these days. However, we are not being negative in our approach but believe that it is far more important to have a culture running through the business like ‘blood in one’s veins’, which recognises the importance of integrity as far as all stakeholders are concerned, including customers as well as staff and shareholders. Pieces of paper are meaningless without a proper commitment to worthwhile business objectives and, of course, proper behaviour at every level. I know that from time to time we fail to meet these challenges, but I am equally convinced that it is not through lack of trying.”

Surveys of public opinion continue to show that the general public holds business in rather poor repute. This suggests that although the efforts to raise ethical standards may be bearing fruit at corporate level, the effects have not yet generally penetrated to public consciousness.

A further weakness is the lack of attention given to the ethical concerns of small and medium size businesses. Too much research on business ethics seems to assume that all private sector commercial organisations behave in similar ways or have similar problems. Over 95% of firms in most national economies are composed of those employing fewer than fifty people and together they provide the majority of private sector jobs. It is surprising therefore, that this distinction has not been more widely recognised when dealing with ethical behaviour.

A survey among large UK corporations in 1998 suggested that less than 50% of those with codes of business ethics have a programme to implement the code through corporate training programmes, and more than 25% of respondents do not make their code available to all employees. These disturbing figures were confirmed in an Arthur Andersen survey in 1999.³

Finally, under this heading, there is a weakness in the value-basis of most corporate ethics programmes. Research has shown that certain ‘value’ words – integrity, trust, fairness, reputation – recur

in Mission Statements or Prefaces to company codes.⁴ But they are not universally accepted, and business leaders do not appear to have a common mind on the issue. This is why initiatives like the Caux Round Table’s Principles for Business, the Sullivan Global Principles and the Ceres Principles for the Environment are important building blocks in developing agreement on fundamental values and principles underlying global as well as national business. We will hear more of this in the 21st century.

Even if the base values can be agreed, a further important weakness is apparent: few senior business executives are involved in the discussions to produce global ethical principles. The newly formed Human Business Partnership, which is seeking to synthesise the work already done by Caux, Sullivan and others, has been given considerable encouragement by leaders at international institutional level, but rather less by corporate CEOs.

What are the *opportunities* for business ethics?

- a) A growing demand by the general public for transparency and accountability in public and corporate life.
- b) A worldwide understanding of the importance of basic human rights and environmental standards.
- c) The globalisation of economic activity.

Enhanced education opportunities and the availability of information worldwide at minimum cost have brought with them more awareness of how decisions are made that affect the lives of ordinary people, and with this awareness has come a desire to be more involved. While this interest focussed first on big government and produced freedom of information laws, attention is now turning to the functioning of large corporations. High profile incidents referred to earlier, and media attention to corporate behaviour generally, for instance on the question of product sourcing, have led governments to ask for more openness and accountability. This interest is not confined to governments:

shareholder groups are becoming more strident in their demands (often at company AGMs) for information on a range of issues, often beyond any legal requirement. Campaigning groups among non-governmental organisations (NGOs) are continually raising concerns with corporations that can rightly or wrongly affect corporate reputations when their demands are resisted and the media becomes involved. The rapid increase in ethical investment funds on both sides of the Atlantic is a further indication of public interest in corporate conduct.

This all presents a considerable opportunity for those concerned with business ethics. While the promulgation in the US in 1991 of the Federal Sentencing Guidelines coupled with the stringency of the US Foreign Corrupt Practices Act (1977) has given a strong impetus to corporate ethical programmes in the US, it is the corporate social responsibility movement that is driving business ethics in European and other countries. Calls for accountability on issues other than financial are being met with imaginative corporate programmes on environmental and societal (including human rights) issues. A few larger companies are now issuing separate reports on each. We will hear more of what is being called "the triple bottom line" – that is financial, environmental and social performance of corporations. This approach, coupled with corporate governance issues and risk/reputation matters, is being grouped by commentators under the general heading of sustainability or sustainable development 'from boardroom to factory floor'. For instance, to obtain the ISO 20000 standard for international sustainable management will, it is claimed, require a complete corporate cultural change. Business ethicists will need to be fully briefed and ready to translate these pressures into practical cross cultural corporate standards and policies.

What are the *threats* to business ethics?

- a) Law and regulation will gradually usurp the discretionary nature of ethics.
- b) Demands for measurement of ethical performance will concentrate on the negative rather than positive aspects of the subject.

- c) The topic is not widely or imaginatively enough taught on corporate training courses or at business schools.

The growth of law and regulation concerning corporate behaviour is something of an indictment of businesses' lack of response to charges of unethical behaviour. With a few outstanding exceptions, business ethics is hardly taken seriously at boardroom level unless a crisis stimulates an effort. Surveys show that once the effort is made to produce and promulgate a code of ethics, a fatigue seems to set in. Thus, inadequate effort is made to raise the awareness of new employees or new business partners about how to cope with business dilemmas or what the company's policy is regarding (say) facilitation payments. As a result, lawmakers are encroaching rapidly on areas which hitherto have belonged in the realms of ethical discretion. Furthermore, international bodies (OECD, European Commission, ILO) are proposing more regulations on multinational businesses which will inhibit ethical enterprise.

Pressures from campaigning NGOs and fund managers for independent measurement of corporate practice, for instance in relation to human rights practices of producers in developing countries, may lead to a lower ethical performance than might otherwise have been the case. Ethics, like all social behaviour, cannot be reduced to mere numbers. At best a 'box ticking' exercise indicating adherence to good practice is all that can be hoped for. As Professor Joseph Badaracco at Harvard puts it, 'ethics is about right v right issues'.⁵ The demands for measurement tools may well force good ethics out of the corporation only to be replaced by a culture of fear driven by compliance. This poses something of a threat to business ethics.

The general lack of business ethics topics in corporate training programmes is also a threat to sustaining high moral standards in business. Best practice is to infuse *all* training programmes ranging from those for directors to induction programmes for new employees, with some ethics awareness element (such as a mini case study). Few insist on this, perhaps because of a deficiency in good training material or trainers. At business

school level there is a wide discrepancy of practice between the US and the UK. Continental Europe's business schools are somewhere in the middle. The UK has very few Chairs of business ethics. In the US there are many more. A US corporation would confidently expect an employee with an MBA to have the tools to deal with ethical dilemmas, though little is known about how effective these tools are. That is not so in the UK. The lack of qualified teachers with any career pattern, coupled with interdepartmental competition between philosophy and management teachers concerning business ethics also present threats to the long-term sustainability of business ethics as a serious subject.

Conclusion

So at the start of the new century business ethics as a practical issue is growing in the Western world and is beginning to be considered seriously by governments and academics in Africa and Asia. Outside the US, a particular focus of attention is the proper governance of corporations. Globalisation of economic activity without some agreement on how to approach ethical dilemmas spanning

different religious and cultural backgrounds presents an enormous challenge. Markets will not work unless there is free interchange of information, goods and services. Neither will they work if there is no international agreement on common values and a common approach to issues of trust and integrity in business. That is the real current challenge to the world of business ethics.

Notes

1. Baumhart R. 1968. *An honest profit*. New York: Holt Rinehart and Winston.
2. Webley S. 1997. 'British businessmen's behaviour'. In *Business responsibilities*. Henley on Thames: NTC Publications Ltd.
3. Webley S. and Le Jeune M. 1998. *Company use of codes of business ethics*. London: Institute of Business Ethics. Also *Ethical concerns and reputation risk management*. London: Arthur Andersen and LBS 1999.
4. Webley S. 1999. 'Sources of corporate values'. *Long Range Planning*, 32:2.
5. Badaracco J. L. 1997. *Defining moments: when managers must choose between right and right*. Cambridge, MA: Harvard University Press.

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