

BUSINESS ETHICS: A NEW ECONOMIC DISCIPLINE?

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Economics can be enriched by paying more attention to ethics. The narrow interpretation of self interested behaviour is not sufficient in a world of (extremely) limited conditions. Maximizing utility (as one possible definition of economic success) is a relative matter, depending on what appears to be the appropriate standard. The problem of externalities e.g. has to be discussed under the point of view of ethics-economic reasoning alone will not solve the problem. The "real" goals of a corporation can only be identified by the means of ethical reasoning. Values are decisive for what happens in business, they may be rational or irrational, consistent or inconsistent with those of the marketplace. There has been little systematic analysis of values in business.

Keywords: Ethics, Economics, Business

1. INTRODUCTION

"Time has come to put business ethics explicitly on the agenda of those who bear responsibility in the business world and of the scholars working in the field of business administration". (Henk van Luijk, Chairman of the Executive Committee of EBEN, European Business Ethics Network, 1989.).

There has occurred a serious distancing between economics and ethics which has brought about one of the major deficiencies of contemporary economic theory. Economics as a scientific discipline can be made more productive by paying greater and more explicit attention to the ethical considerations.

The values which drive business may be of many different kinds (including cultural norms which represent the expectations of customers, employees, suppliers, the general public and so on). Also moral and ethical imperatives are included. It is a fact that for example technical values, values of efficiency or practical, prudential values may be inconsistent with ethical values. A process can be efficient, prudent, illegal and immoral. Business ethics deals with a wide range of practical matters (e.g. profit, employment practices, environmental matters).

Ethics is certainly one of the oldest frameworks for thought and action. Sometimes ethics is restricted to only a few values, namely to those that deal with what is, or is thought

to be "good", "right" or obligatory. Such a restriction provides too narrow a perspective which historically has led to discussions which have provided little practical guidance.

Ethical issues in business have existed as long a business itself. There has been a growth of interest in business ethics in recent years. There is a growing number of business scandals which make the broad public aware of questionable business practices. There is no doubt that a practice which is unpopular or illegal not necessarily has to be unethical, nor is a standard of universal practice automatically defensible and right. Matters in the field of business ethics range from monopoly in the product market to compulsory union membership in the labour market, "insider trading", that is the making of profits with the help of confidential information, and of course (and which will be the main subject of our course) the manipulative and sometimes ethically questionable means of marketing. It can be said that there are no absolute values which are valid for all persons. People differ concerning their values, there are different values prevailing in different cultures and countries. The "subjectivity" of values is an important topic in business ethics, but nevertheless it is possible to develop defensible ways and approaches of deciding what is or is not good practice. Traditional standards and practices are increasingly criticised and challenged so that business ethics has proved supportive and constructive as new ways to meet such challenges are suggested.

2. THE BUSINESS ETHICS

The most corporations have a kind of credo, a statement which is announced by the chairmen, where integrity and high moral standards are praised, and where all these characteristics are seen as decisive for a company's success and a positive relationship to all involved persons (customer, suppliers, employees, the general public - all groups that represent stakeholders of the respective companies - an approach which still will be analysed in detail). The importance of such high ethical values and moral rules for a company and its competitiveness is evident in the long run and on the average, but there are highly-reputed companies which do not respect certain fundamental moral rules and still realise great profit also over a long period of time.

If it is accepted that business standards do vary, then it is reasonable to search for explanations of the variations. The possibilities include:

- leadership; the ethos of a corporation is determined or at least strongly influenced by the head of the corporation,
- beliefs: belief systems (skepticism, market ideology, utilitarianism, etc.) may have explanations for what occurs in business that is ethically relevant, but also help to determine what occurs. They can become self-fulfilling prophecies and self-justifying truths,
- myths: people in groups seem unable to function without guiding myths.

Ethics

formally:

actions/dispositons to act
(virtues)
morals (character, moral strenght)
morality (ethos)

materially:

happiness: successful life - descriptive notion
freedom: autonomy - heteronomy
good - evil: quality of action

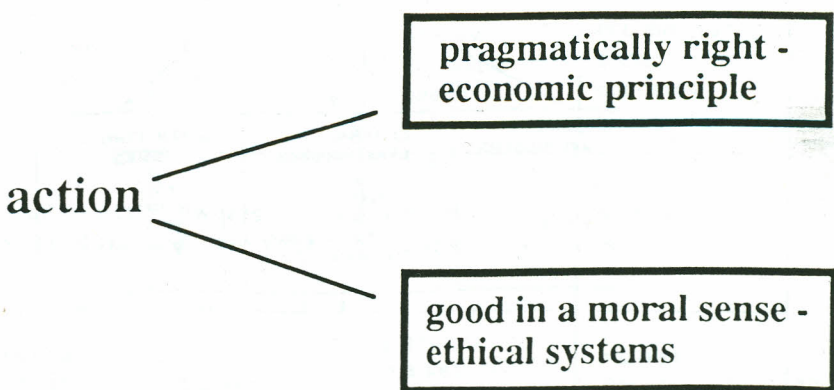


Chart 1.: What is Business Ethics

Table 1.: Ethical principles

Ethical principle or theory	Case or example
	Codex of practice
facts/accuracy	"To encourage investigation and research".
Utilitarianism	"To meet the interests of clients and members" "Without profit we will not lose"
Duties/Deontology	"The guardian of standards of practice" "Wish to be a good corporate citizen"
Rights	"Irrespective of differences in race" "employee's right to be consulted on work that directly affects them"
Values	
Skills	"to develop and maintain professional standards of competence"
Prudence	"We cannot break the law, or deviate offensively from local custom in pursuing the goal"
Moral	anti-bribery stance
Criteria	
Autonomy	"A say in matters that affect them"
Golden rule	"Defined procedure in order to ensure consistency"
Pluralism	"Will operate with legitimate groups"

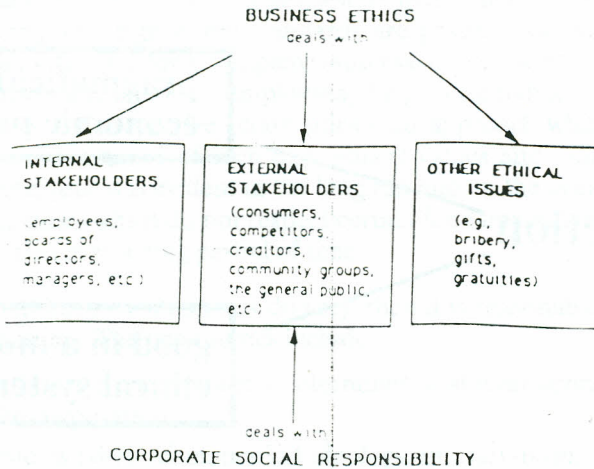


Chart 2.: Business Ethics

Of particular interest are the fundamental ethical matters and governing values of the member countries of economic communities like the European (Economic) Community. From a subjectivist (or relativist) point of view it is held that more of one nation state or group of nations cannot logically be criticised in terms of those of another. Relativists argue that ethics is wholly a matter of taste. If this is true it seems to imply that there is little to be said or done about it if one country prefers a different set of rules from those of another country. But this hardly seems to be an issue for the EC. The rules are agreed to in the signing of the treaties. What is not agreed is the range of cases to which the rules apply. Also not agreed are the speed of implementation and the mode of enforcement. In contrast to the subjectivist point of view, objectivists hold that there are rules and principles that are valid for all time and for all circumstances. There are, according to this view, some moral truths and principles that remain true even if everyone in world rejects them. In the EC for example the parties involved agree to the rules and principles that are valid but they disagree on which of the rules or principles is the right to apply in a particular case.

	factors of production-theory (Gutenberg)	decision-making-theory (Heinen)	systems-theory (Ulrich)
corporations are seen as	combinations of factors of production	open, economic institutions	open, social institutions
environment: concerns	economic needs	mainly economic needs	economic and social concerns
environment: stakeholders	owners, stockholder	mainly owners	no exact specification
external control systems	market	primarily market, but also culture, and laws	market, government, and morality

Chart 3.: *Important Approaches to the Relation between Business and Society*

3. THE GENERAL PRINCIPLES

Free markets are often held to be the generators of economic justice. The ethical arguments which support the free market depend upon acceptance of one of the main theoretical ethical outlooks, namely that of utilitarianism. Free markets can deliver or create the conditions for the existence of many values like economic growth, technical innovations, flexibility and rising income.

The traditional way of reducing the volume and variety of values, also in business, is to attempt to seek general principles. The principles are designed to provide a pre-formed, preconsidered judgment about the respective case. The use such principles may avoid arbitrary judgments. Of course there are different kinds of (ethical) theories which are preferred in different countries and cultures.

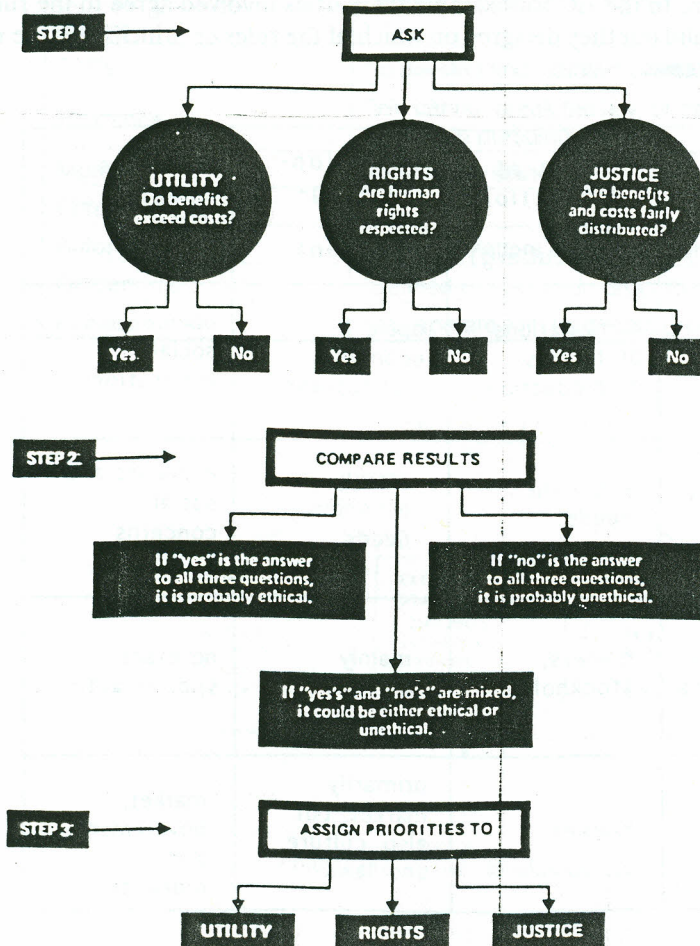


Chart 4.: An Analytical approach to ethical problems

Criteria for improvement: autonomy, pluralism and the golden rule ("Do as you would be done by". Various expressions for this fundamental moral rule are to be found in most religions and creeds through the ages, testifying to its universal applicability).

Rival theoretical outlooks e.g. Utilitarianism, deontology, and rights theory.

Analytical distinctions factual matters or kinds of evidence, values; those of skill, prudence and moral principle.

These factors can be represented as a matrix. It is then possible to analyse any case for the presence and importance of each element.

There are many ethical approaches which are not discussed here: for example

agapism - the idea that ethical behaviour is derived from the prescription or principle of love

egoism - the idea that action must inevitably spring from self-seeking

existentialism - the notion that we are all responsible for and control our own development

intuitionism - the idea that moral concepts are known directly by intuition

emotivism - the claim that moral concepts do no more than express emotions.

4. SUMMARY

Laura L. Nash of the Institute Of Economic Culture in Boston concentrates on the individual manager as a logical starting point and as necessary condition for the development of ethics in business. According to her it is necessary to pay attention to the reasons why normal moral values of private life seem to break down or are ineffectual in a business context. "The answer lies in the analytical frameworks that managers use, the goals they set, the organisational structures they adopt, the language they use to motivate others, and their personal assumptions about the intrinsic worth of other people."

Nash also offers a checklist under the heading "Twelve Questions for Examining the Ethics of a Business Decision".

1. Have you defined the problem accurately?
2. How would you define the problem if you stood on the other side of the fence?
3. How did this situation occur in the first place?
4. To whom and to what do you give your loyalty as a person and as a member of the corporation?
5. What is your intention in making the decision?
6. How does the intention compare with the probable results?
7. Whom would you decision or action injure?

8. Can you discuss the problem with the affected parties before you make your decision?
9. Are you confident that your position will be as valid over a long period of time as it is now?
10. Could you discuss without qualm your decision or action to your boss, your CEO, the board of directors, your family, society as a whole?
11. What is the symbolic potential of your action if understood? If misunderstood?
12. Under what conditions would you allow exceptions to your stand?

LITERATURE

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