BUSINESS ETHICS

FIFTH EDITION

ANDREW CRANE | DIRK MATTEN | SARAH GLOZER | LAURA SPENCE

Business Ethics

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Managing Corporate Citizenship and Sustainability in the Age of Globalization

Fifth edition

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HOW TO USE THIS BOOK

Who is it for?

This book is suitable for MBA students, advanced undergraduates, and master's students, as well as participants on executive courses. It has been specifically written from an international perspective, so it can be enjoyed by students from any country, and can be used effectively for courses in Europe, North America, Australasia, Asia, Latin America, or Africa.

One of the main differences between this and many other business ethics textbooks is that it adopts a broad perspective on business ethics and integrates issues of globalization, corporate citizenship, and sustainability throughout. As such, it has been designed to be used as a core recommended text for courses in business ethics, corporate responsibility, business and society, or stakeholder management. It can also be successfully used for modules focusing specifically on sustainable business, marketing ethics, supply-chain ethics, and other specialist subjects.

Structure of the book

The book consists of two parts, as shown in **Figure A**:

- **Part A** presents the key conceptual foundations of business ethics. This enables you to gain a thorough understanding of the subject's main theories and tools.
- **Part B** explores business ethics in the context of key stakeholder groups. Each chapter explains the specific stakeholder relationship involved, the main ethical issues that arise, and then how each stakeholder can be examined through the lenses of globalization, corporate citizenship, and sustainability.

Most courses will tend to use Part A as a foundation and then selectively use chapters or sections from Part B to suit the aims and structure of the particular course. The book has been specifically designed to accommodate this modular approach, and each of the sections in Part B can be used as a standalone component to support individual courses.

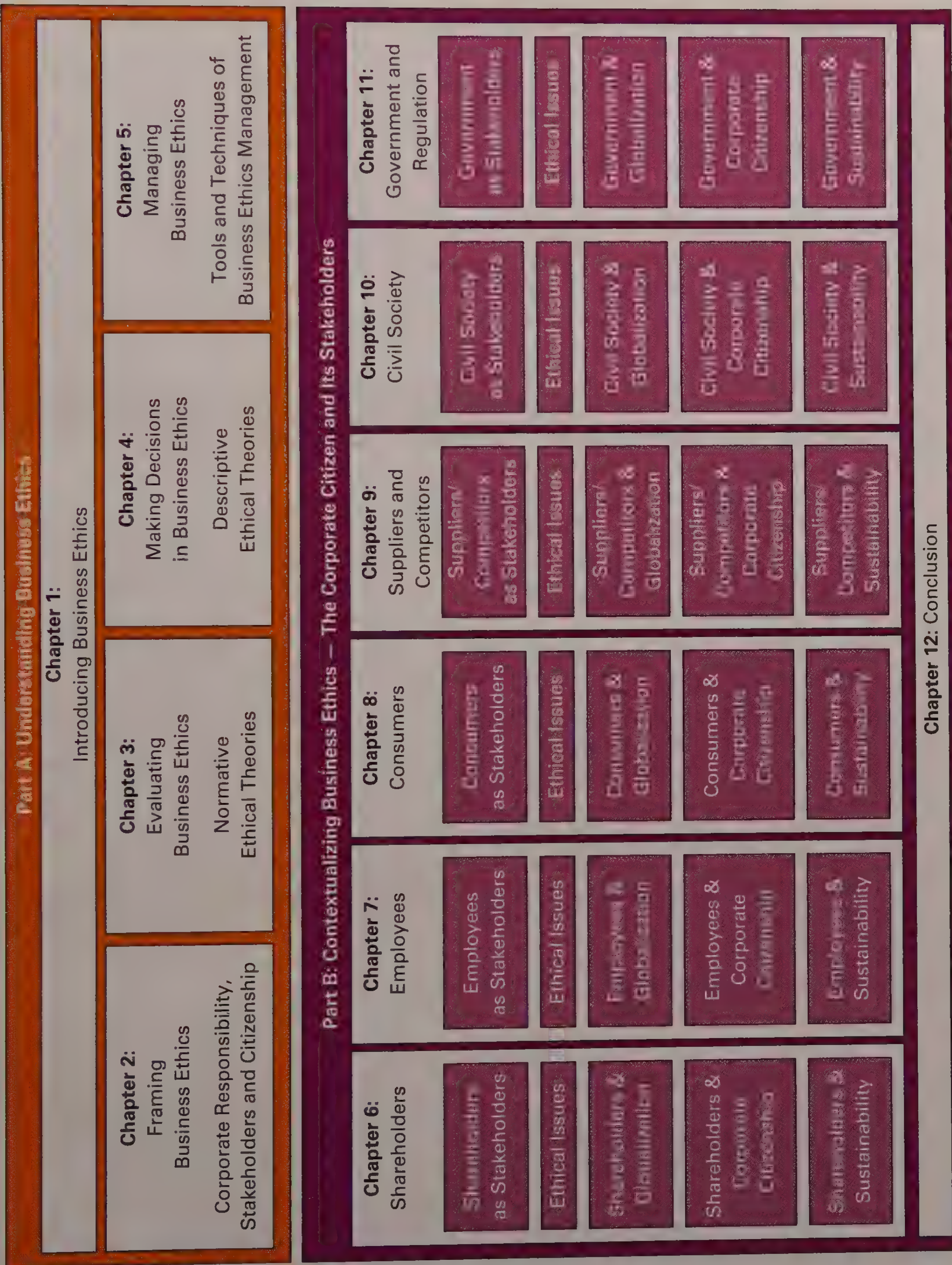


Figure A Structure of the book

Tools for teaching and learning

The book takes an applied approach to business ethics that emphasizes real world application. This means that it is grounded in the academic literature, but has been written with a strong emphasis on practical problems and real-life examples and illustrations. Business ethics issues seem to be in the media almost every day, so there is no shortage of current material to draw on. In fact, you are certain to have come across many of the examples featured in the book at some time—and Crane, Matten, Glozer, and Spence provide you with a way of linking those real life events to the conceptual material that you will be covering on your course. For a full description of the pedagogical features used in the book, please see the Guide to the book (p. xx).

Chapter summaries

- **Chapter 1** provides a basic introduction to the concept of business ethics and its importance both at an academic level and in terms of practical management in different types of organizations. As well as explaining the international perspective adopted in the book, this chapter introduces two of the main themes of the book: globalization and sustainability.
- **Chapter 2** introduces ways of framing business ethics in the context of the corporation being part of a wider society. The chapter provides an overview of concepts such as corporate social responsibility and stakeholder theory, and leads on to an analysis of key contemporary concepts such as corporate accountability and corporate citizenship, which offer important conceptual space for understanding business ethics beyond its traditional boundaries.
- **Chapter 3** sets out the key normative ethical theories that can be applied to business ethics problems, in terms of both traditional and contemporary theoretical approaches. The main intention is to identify a pragmatic, pluralistic approach to theory application.
- **Chapter 4** provides an alternative way of addressing these questions of ethical decision-making by looking at how decisions are actually made in business ethics, and by assessing the various descriptive theories in the literature. The main focus is on revealing the different individual and situational influences on how (and whether) business people recognize and deal with ethical problems.
- **Chapter 5** provides a critical examination of proposals for managing business ethics through specific tools, techniques, practices, and processes. This is done by looking at the importance of, and problems in, attempting to manage business ethics in the global economy, and the development over time of different ethics tools and techniques.
- **Chapter 6** sets out the rights and responsibilities of shareholders, emphasizing the ethical issues that arise in the area of corporate governance including insider trading, executive remuneration, and ethics of private equity. It also highlights the different corporate governance models across the globe, and the specific role played by shareholders in socially responsible investment. It concludes with a discussion of alternative forms of corporate ownership as a basis for enhanced sustainability.
- **Chapter 7** examines ethical issues in relation to employees and workers. It discusses the various rights and duties of this stakeholder group, and presents the global context of workers'

rights. Moves towards corporate citizenship and sustainability in relation to employees are discussed in the context of issues such as employee participation, work–life balance, and sustainable employment.

- **Chapter 8** considers the ethical issues arising in the context of consumers. It examines the question of consumer rights, the ideal of consumer sovereignty, and the role of ethical consumption in shaping corporate responsibility. The chapter concludes by examining problems and solutions around moving towards more sustainable models of consumption.
- **Chapter 9** explores the ethical issues arising in relation to firms' suppliers and competitors. The chapter examines problems such as conflict of interest, bribery, and unfair competition, and moves on to discuss the global supply chain and ethical sourcing. Finally, the challenges of sustainable supply-chain management and industrial ecosystems are explored.
- **Chapter 10** considers the relationships between businesses and civil society organizations (CSOs), addressing the changing patterns of relationships between these traditionally adversarial institutions. Key issues examined here include the ethics of pressure group tactics, business–CSO collaboration, and social enterprise.
- **Chapter 11** covers government and regulation. Government as a stakeholder is a very multifaceted group, which we unpack at various levels, functions, and areas. The chapter explores problems such as corruption and corporate lobbying, and examines the shifting relationships between regulation, government, and business, stressing the increasingly important role played by corporations in the governance of the global economy.
- **Chapter 12** provides a review and integration of the previous chapters in terms of key topics covered. Emerging themes of gender and other inequalities, alternative business models, and digitalization are identified. The chapter also discusses the potential conflicts between different stakeholder groups discussed in Part B, and draws conclusions about the future relevance of business ethics issues.

GUIDE TO THE BOOK

Having completed this chapter you should be able to:

- Explain why corporations have social responsibilities.
- Explain corporate social responsibility in terms of its levels, strategie
- Explain the stakeholder theory of the firm.
- Accurately apply the concepts of corporate citizenship, accountability transparency to the political role of corporation.

Learning objectives

Each chapter starts with a set of bulleted learning outcomes, which indicate what you can expect to learn from the chapter.

Key concepts:

- Gig economy
- Modern slavery
- Employee rights
- Employee duties
- Workplace discrimination

Key concepts

Explore the key concepts set out at the beginning of each chapter in more detail and recap the key theories and essential terminology as you work through the text.

PRACTITIONER SPOTLIGHT 3 Inspiring ethics leaders of tomorrow

Photo credit: Sébastien St-Jean/Agence QMI

Business and managem critiqued for promotin over a longer-term and entation. But exactly ho ness ethics within busin scholarship? We spoke **Ph.D., Assistant Professo Québec, Canada** to lear teaching and research i ble and inclusive societ

Please can you tell us a

Practitioner spotlights

A new feature in the fifth edition, these spotlights give you the opportunity to hear directly from people who are using business ethics in their daily work. A diverse selection of practitioners from around the world share their rich perspectives to bring to life the multitude of ways that business ethics can be an embedded part of your skillset and your future career.

Ethics in Action 1.2 Ethical fashion for Ethics Girls

Want to buy a new pair of jeans, but also care about how much the work them? Think there may be space in your life for an iPhone case made from reclaimed parachute silk? Well, being ethical does not have to mean being at least not according to the UK-based Ethics Girls organization. The Ethics G to 'set the example' in 'ethical fashion, shopping and ideas'. Featuring a sh the opportunity to become a member of the Ethics Girls co-operative, they p out of ethical consumption, to make life and our choices simpler'.

Ethics in action

These are short articles that showcase current ethical problems faced by business, leading-edge initiatives, or high-profile scandals that have hit the headlines.

ETHICAL DILEMMA 7 Off your face on Facebook?

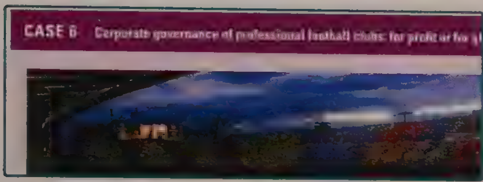
You are the human resource manager of AllCure Pharmaceuticals. It is a bu in the product approval department have called you because they despera team member to assist them with the clinical trials of what could become th for the company. You get started and within a week you have managed to applicants for the job. The interviews went well and there are two really go women, recent university graduates, and you find it hard to decide between

Ethical dilemma

These describe a hypothetical ethical scenario, mainly derived from real-life incidents, and provide you with the opportunity to think about what you would do in a typical business ethics situation in a structured way.

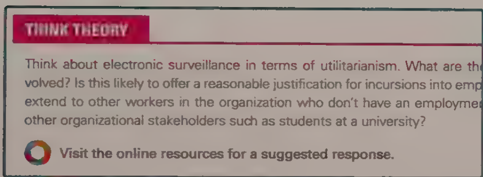
Ethics on screen

Reviews and analysis of topical films or documentaries help to bring to life some of the key issues discussed in the chapters.



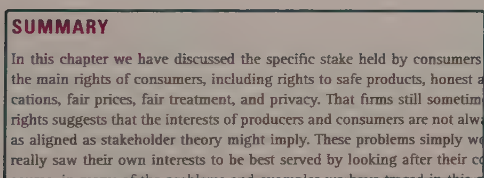
Case studies

At the end of each chapter, an extended case study describes the ethical issues faced by well-known companies and organizations. They provide an excellent opportunity to use the material covered in the chapter to conduct a critical analysis of a real-life situation.



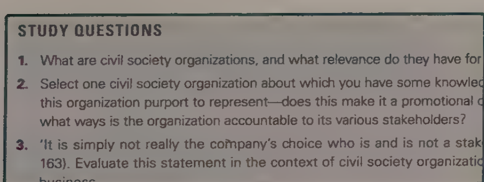
Think theory

Throughout the text there are call-out boxes that encourage you to stop and think about how the theories discussed in the book apply to real-world examples.



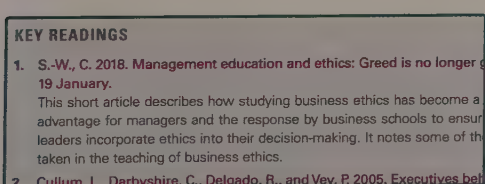
Chapter summary

This provides a brief overview of the issues covered in a particular chapter, helping you to review what you have learned.



Study questions and research exercise

These offer an opportunity to test your knowledge and understanding of the material covered so far, in a format commonly used in course assignments and exams.



Key readings

Two carefully selected articles that provide the best insight into some of the issues discussed in the chapter, annotated with helpful comments about their content, will help prioritize additional reading and research.

GUIDE TO THE ONLINE RESOURCES

Credit: Percom / Shutterstock

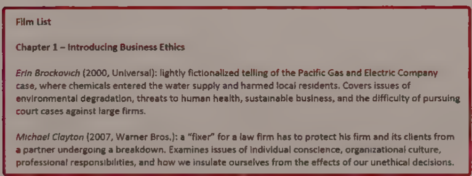
For students

Practitioner Spotlight videos

New for the fifth edition, these videos are thought-provoking clips featuring some of the professionals from the Practitioner Spotlights in the book. The practitioners discuss contemporary issues and explore the challenges faced within their organizations. Full transcripts from the videos are also provided.

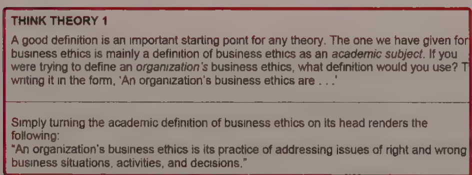
Links to film trailers

Trailers of the movies featured in the Ethics on Screen boxes.



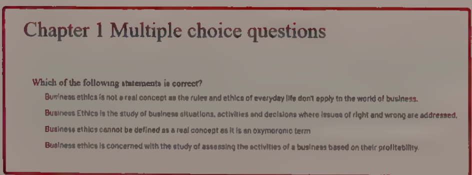
Film list

An annotated list of relevant movies to guide you in learning more about the issues covered in the book.



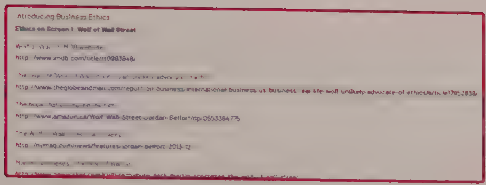
Think Theory solutions

Attempt to answer them yourself and then check your knowledge with suggested solutions for all of the Think Theory questions posed in each chapter.



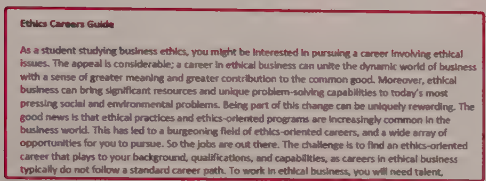
Multiple choice questions

New for the fifth edition, the multiple choice questions allow you to test yourself on each chapter of the textbook and receive instant feedback.



Annotated web links

Links to websites relevant to all the Cases, Ethics in Action, Ethics on Screen, and, new for this edition, Practitioner Spotlights features included in the chapters, providing you with the opportunity for exploring issues in more detail.

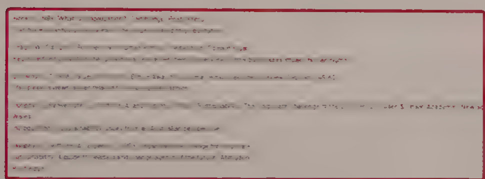


Ethics Careers Guide

As a student studying business ethics, you might be interested in pursuing a career involving ethical issues. The appeal is considerable; a career in ethical business can unite the dynamic world of business with a sense of greater meaning and greater contribution to the common good. Moreover, ethical business can bring significant resources and unique problem-solving capabilities to today's most pressing social and environmental problems. Being part of this change can be uniquely rewarding. The good news is that ethical practices and ethics-oriented programs are increasingly common in the business world. This has led to a burgeoning field of ethics-oriented careers, and a wide array of opportunities for you to pursue. So the jobs are out there. The challenge is to find an ethics-oriented career that plays to your background, qualifications, and capabilities, as careers in ethical business typically do not follow a standard career path. To work in ethical business, you will need talent,

Ethics careers guide

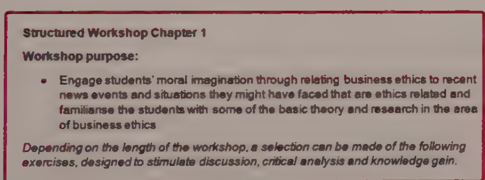
Information about the careers that are available to you in the field of business ethics.



Further reading

Annotated links for additional readings have been provided as guides to finding out more about the issues raised within each chapter and to help you locate useful academic literature in the field.

For lecturers



Structured Workshop Chapter 1

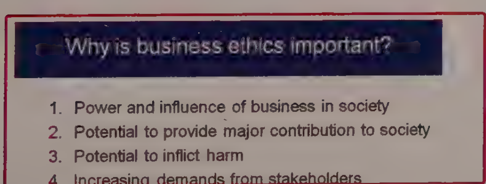
Workshop purpose:

- Engage students' moral imagination through relating business ethics to recent news events and situations they might have faced that are ethics related and familiarise the students with some of the basic theory and research in the area of business ethics

Depending on the length of the workshop, a selection can be made of the following exercises, designed to stimulate discussion, critical analysis and knowledge gain.

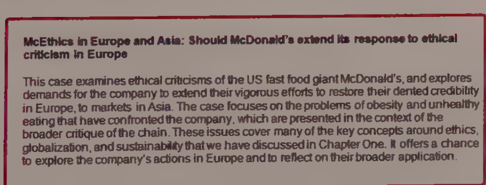
Ideas for structured workshops

New for the fifth edition, these are suggested class activities for use in seminars to encourage student engagement.



PowerPoint slides

A full set of chapter-by-chapter lecture slides including all of the main points and figures in the text, fully customizable to suit your own presentation style.

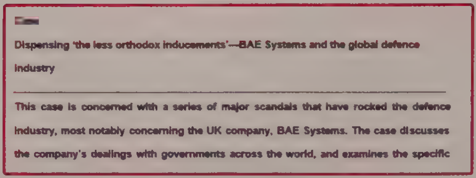


McEthics in Europe and Asia: Should McDonald's extend its response to ethical criticism in Europe

This case examines ethical criticisms of the US fast food giant McDonald's, and explores demands for the company to extend their vigorous efforts to restore their dented credibility in Europe, to markets in Asia. The case focuses on the problems of obesity and unhealthy eating that have confronted the company, which are presented in the context of the broader critique of the chain. These issues cover many of the key concepts around ethics, globalization, and sustainability that we have discussed in Chapter One. It offers a chance to explore the company's actions in Europe and to reflect on their broader application.

Teaching notes

Suggested answers, teaching suggestions, and further resources for all Ethics in Action features, Ethical Dilemmas, Ethics on Screen, and end-of-chapter Cases.

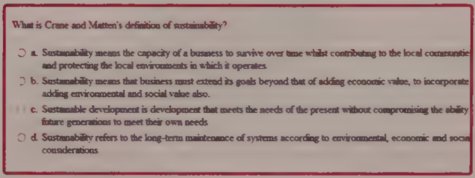


Dispensing 'the less orthodox inducements'—BAE Systems and the global defence industry

This case is concerned with a series of major scandals that have rocked the defence industry, most notably concerning the UK company, BAE Systems. The case discusses the company's dealings with governments across the world, and examines the specific

Case bank

Repository of all the cases (with teaching notes) from the previous editions of the book, so that you can still get access to all the tried and tested cases you have used in the past.

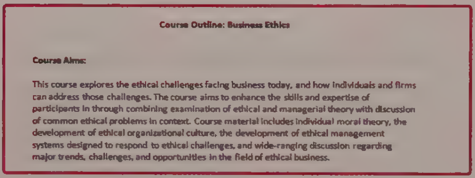


What is Crane and Matten's definition of sustainability?

- a. Sustainability means the capacity of a business to survive over time whilst contributing to the local communitie and protecting the local environments in which it operates.
- b. Sustainability means that business must extend its goals beyond that of adding economic value, to incorporate adding environmental and social value also.
- c. Sustainable development is development that meets the needs of the present without compromising the ability future generations to meet their own needs
- d. Sustainability refers to the long-term maintenance of systems according to environmental, economic and socia considerations

Test bank

A ready-made electronic testing resource to help assess your students' learning of the key points in the text. The test bank can be customized to meet your teaching needs.



Course Outline: Business Ethics

Course Aims:

This course explores the ethical challenges facing business today, and how individuals and firms can address those challenges. The course aims to enhance the skills and expertise of participants in through combining examination of ethical and managerial theory with discussion of common ethical problems in context. Course material includes individual moral theory, the development of ethical organizational culture, the development of ethical management systems designed to respond to ethical challenges, and wide-ranging discussion regarding major trends, challenges, and opportunities in the field of ethical business.

Sample course outline

A sample course outline for instructors specifying course aims, student skills, weekly subjects, and key readings.

ACKNOWLEDGEMENTS

First off, we would like to thank all the students and fellow instructors who over the years have provided such great feedback in developing the successive editions of *Business Ethics*. We are also grateful to the legions of anonymous OUP reviewers who have taken the time to provide detailed comments and suggestions on the book throughout its five editions. We would like to thank Simon Oldham for research assistance on the new edition and for his hard work in updating the online resource materials. We particularly acknowledge advice that was provided in compiling Chapter 3 by Sareh Pouryousefi and Janet Borgerson, Chapter 5 by Kostas Iatridis, and Chapter 11 by Stephanos Anastasiadis. Other contributors directly and indirectly to whom we are grateful include: Md. Nazmul Hasan, Colin Higgins, Sanjukta Choudhury Kaul, Lauren McCarthy, Vivek Soundararajan, and Scott Taylor. Special thanks are also due to all the contributors to this edition who participated in the new 'Practitioner Spotlight' feature. Others who have provided help are acknowledged at the relevant places in the book.

The fifth edition sees the introduction of Sarah Glozer and Laura J. Spence to the Crane and Matten team, enabling some fresh perspectives which we hope our readers will find valuable. Our sincere thanks go to our respective universities—the University of Bath (Crane and Glozer), Royal Holloway, University of London (Spence), and Schulich School of Business (Matten) for providing us with the time, resources, and support without which the book would not have been possible. More importantly still, our families deserve a huge thank you for being patient and supportive as we have dedicated time and energy towards the book.

Finally, we would like to thank the team at OUP for their support of the first Crane, Matten, Glozer, and Spence version of the book, especially our dedicated editors Kate Gilks and Nicola Hartley. Each new edition entails an enormous amount of work for us as authors, but our team at OUP always provides wonderful support and service along the way.

Unless otherwise stated, all websites mentioned in the text were last accessed in December 2018.

Sarah Glozer
Laura J. Spence
Andrew Crane
Dirk Matten
December 2018

FRONT COVER

The image used on the front cover is taken from a series of photos that focus on the 'Info Ladies' in Bangladesh. In this image, one of the Info Ladies helps two relatives connect over Skype, one of whom is working in Saudi Arabia. The Info Ladies offer a series of vital services as in Bangladesh less than a quarter of the population uses the internet, and access is both slow and expensive. Once they have been trained for three months in using a laptop, mobile phone, and a digital camera the Info Ladies fan out across some of the most remote parts of the country to offer villagers anything from Skype calls to distant relatives, and help with filling out online forms, to pregnancy tests, photographs, and farming advice. The project was launched by local NGO Dnet in 2008.

Paper

This book is printed on paper that has been accredited by the Forest Stewardship Council. FSC members comprise a diverse group of representatives from environmental and social groups, the timber trade, paper industry, forestry profession, indigenous people's organizations, community forestry groups, and forest product certification organizations from around the world. It is their job to ensure that the forests are managed to protect wildlife habitat and respect the rights of local communities.

All products carrying the FSC Logo have been independently certified as coming from forests that meet the internationally recognized FSC Principles and Criteria of Forest Stewardship. Certification involves inspection and auditing of the land from which the timber and pulpwood originate and tracking it through all of the steps of the production process until it reaches the end user. The FSC is an international non-profit organization to support the world's forests. It is an example of a business–civil society organization (CSO) collaboration, like others discussed in Chapter 10.

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The authors and Oxford University Press are immensely grateful to the following reviewers, who provided invaluable feedback at multiple stages of the writing of this edition of the book. This feedback informed the book's development and has helped to ensure that it fulfils its aims.

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PART A

Understanding Business Ethics

1

Introducing Business Ethics

Having completed this chapter you should be able to:

- Provide a basic definition of business ethics.
- Describe the relationship between business ethics and the law.
- Distinguish between ethics, morality, and ethical theory.
- Evaluate the importance of business ethics as an academic subject and as a practical management issue in organizations.
- Specify ethical challenges in different types of organizations.
- Describe how globalization represents a critical context for business ethics.
- Elaborate on different international perspectives on business ethics, including European, Asian, and North American perspectives.
- Explain how the 'triple bottom line' of sustainability is a key goal for business ethics.

Key concepts

- Business ethics
- Race to the bottom
- Globalization
- Comparative analysis of business ethics
- Sustainability

1

WHAT IS BUSINESS ETHICS?

'A book on business ethics? Well, that won't take long to read!'

'You're taking a course on business ethics? So what do you do in the afternoon?'

'Business ethics? I didn't think there were any!'

These are not very good jokes. Still, that has not stopped a lot of people from responding with such comments (and others like them) whenever students of business ethics start talking about what they are doing. And even if these are not particularly funny jokes, nor even very original, they do immediately raise an important problem with the subject of business ethics: some people cannot even believe that it exists!

Business ethics, it is sometimes claimed, is an oxymoron (Prasad and Agarwal 2015). By an oxymoron, we mean the bringing together of two apparently contradictory concepts, such as in 'a cheerful pessimist' or 'a deafening silence'. To say that business ethics is an oxymoron suggests that there are not, or cannot be, ethics in business: that business is in some way unethical (i.e. that business is inherently bad), or that it is, at best, amoral (i.e. outside of our normal moral considerations). For example, it has long ago been said that the 'game' of business is not subject to the same moral standards as the rest of society, but should be regarded as analogous to a game of poker, where deception and lying are perfectly permissible (Carr 1968).

To some extent, it is not surprising that some people think this way. A long list of scandals has highlighted the unethical way in which some firms have gone about their business. However, just because such malpractices take place does not mean that there are not some kinds of values or principles driving such decisions. After all, even what we might think of intuitively as 'bad' ethics are still ethics of a sort. And clearly it makes sense to try to understand why those decisions get made in the first place, and indeed to try to discover whether more acceptable business decisions and approaches can be developed.

Revelations of corporate malpractice should not, therefore, be interpreted to mean that thinking about ethics in business situations is entirely redundant. After all, as various writers have shown, many everyday business activities require the maintenance of basic ethical standards, such as honesty, trustworthiness, and co-operation (S-W 2018). Business activity would be impossible if corporate directors always lied; if buyers and sellers never trusted each other; or if employees refused ever to help each other. Similarly, basic principles of fairness help ensure that people in business feel adequately rewarded for working hard rather than being evaluated on irrelevant criteria such as how good they are at golf or the type of shoes they wear.

It would also be wrong to infer that scandals involving corporate wrongdoing mean that the *subject* of business ethics is in some way naïve or idealistic. On the contrary, it can be argued that the subject of business ethics primarily exists in order to provide us with some answers as to *why* certain decisions should be evaluated as ethical or unethical, or right or wrong. Without systematic study, how are we able to offer anything more than vague opinions or hunches about whether particular business activities are acceptable?

Whichever way one looks at it, there appears to be good reason to suggest that business ethics as a phenomenon, and as a subject, is not an oxymoron. While there will inevitably be disagreements about what exactly constitutes 'ethical' business activity, it is possible at least to offer a fairly uncontroversial definition of the subject itself. So, in a nutshell, we regard the subject of **business ethics** as the study of business situations, activities, and decisions where issues of right and wrong are addressed.

Business ethics The study of business situations, activities, and decisions where issues of right and wrong are addressed.

It is worth stressing that by 'right' and 'wrong' we mean morally right and wrong, as opposed to, for example, commercially, strategically, or financially right or wrong. Moreover, by 'business' ethics, we do not mean only commercial businesses, but also government organizations, pressure groups, not-for-profit businesses, charities, and other organizations. For example, questions of how to manage employees fairly, or what constitutes deception in advertising, are equally important for organizations such as Wikimedia, Seoul National University, or the German Christian Democrat Party as they are for Facebook, Samsung, or Deutsche Bank (for detailed discussion of ethics in different types of organizations see the section 'Business ethics in different organizational contexts' later in this chapter).

THINK THEORY

A good definition is an important starting point for any theory. The one we have given for business ethics is mainly a definition of business ethics as an *academic subject*. If you were trying to define an *organization*'s business ethics, what definition would you use? Try writing it in the form, 'An organization's business ethics are . . . '.

Visit the online resources for a suggested response.

BUSINESS ETHICS AND THE LAW

Having defined business ethics in terms of issues of right and wrong, one might quite naturally question whether this is in any way distinct from the law. *Surely the law is also about issues of right and wrong?*

This is true, and there is considerable overlap between ethics and the law. In fact, the law is essentially an institutionalization or codification of ethics into specific social rules, regulations, and proscriptions. Nevertheless, the two are not equivalent. Perhaps the best way of thinking about ethics and the law is in terms of two intersecting domains (see **Figure 1.1**). The law might

Figure 1.1 The relationship between ethics and the law

be said to be a definition of the minimum acceptable standards of behaviour. However, the law does not explicitly cover every possible ethical issue in business—or for that matter outside of business. For example, just as there is no law preventing you from being unfaithful to your significant other (although this is perceived by many to be unethical), so there is no law in many countries preventing businesses from testing their products on animals, selling landmines to oppressive regimes, or preventing their employees from joining a union—again, issues that many feel very strongly about.

Similarly, it is possible to think of issues that are covered by the law but which are not really about ethics. For example, the law prescribes whether we should drive on the right or the left side of the road. Although this prevents chaos on the roads, the decision about which side we should drive on is not an ethical decision as such.

In one sense then, business ethics can be said to begin where the law ends. Business ethics is primarily concerned with those issues not covered by the law, or where there is no definite consensus on whether something is right or wrong. Discussion about the ethics of particular business practices may eventually *lead* to legislation once some kind of consensus is reached, but for most of the issues of interest to business ethics, the law typically does not currently provide us with guidance. For this reason, it is often said that business ethics is about the 'grey areas' of business, or where there is no clear legal guidance and, as Treviño and Nelson (2014: 39) put it, 'values are in conflict'. **Ethical Dilemma 1** presents one such situation that you might face where values are in conflict. Read through this and have a go at answering the questions at the end.

We should note before we proceed that **Figure 1.1** is of course simplified. The law is not as static as it implies, since it evolves in most countries over time, and is of course different in different states. There is also the tricky question of cases where the law itself is unethical—we could think of instances where the law denies the rights of all people to vote (called universal suffrage), or disadvantages one ethnic group over another, or denies individuals the right to choose a marriage partner. Such examples are historically documented, but continue to be relevant today. In 2018, for instance, gay sex was made legal in India, leaving the open question of whether the law, prior to that, was ethical. Such examples are not represented in **Figure 1.1**, which assumes an ethical relevance to the law when dealing with moral issues.

As we shall see many times over in this book, the problem of trying to make decisions in the grey areas of business ethics, or where values may be in conflict, means that many of the questions we face are equivocal. What this suggests is that there simply may not be a definitive 'right' answer to many business ethics problems. It is often not just a matter of deciding between right and wrong, but between courses of action that different actors, for different reasons, both believe are right—or both believe are wrong. Consider the case of bottled water. Critics, such as *The Story of Bottled Water Project*'s Annie Leonard (2010), argue that it promotes needless consumption, creates waste, and has been deceptively advertised as superior to tap water. The dangers of excessive plastic waste have become a high-profile environmental, consumer, and business issue, with claims that a million single-use plastic bottles are bought per minute around the world (Laville and Taylor 2017). Proponents, such as Nestlé, nevertheless contend that bottled water meets customers' need for convenience, encourages more healthy lifestyles (by substituting for sugary drinks), and has a low carbon footprint compared to other bottled drinks (Kitts 2013).

With issues such as bottled water, as well as countless others including sweatshop working conditions, executive compensation, or corporate tax avoidance, we can see that business ethics

ETHICAL DILEMMA 1 **No such thing as a free drink?**

Jenna, a good friend of yours who studies at the same university, has been complaining for some time to you that she never has any money. She decides that she needs to go out and find a job, and after searching for a while, is offered a job as a bartender in the student bar at your university. She gladly accepts and begins working three nights a week. You are pleased too, not only because it means that Jenna will have more money, but also because it means you will continue to see her regularly—after all, you are a regular customer at the bar!

Jenna enjoys the extra income that the job brings. She also seems to enjoy the work. You are rather pleased with developments since you notice that whenever you go up to the bar, Jenna always serves you first regardless of how many people are waiting.

After a short while, though, it becomes apparent that Jenna is not enjoying the job quite as much as she did. Whenever you see her, she always seems to have a new story of how the bar manager has mistreated her. She tells you how she has been getting the worst shifts, always getting chosen to do the least-popular jobs (like cleaning the washrooms), and being constantly reprimanded for minor blunders that seem to go uncensored for the rest of the staff.

This goes on for a short while and then one day, when you are in the bar having a drink with some of your other friends, Jenna does something that you are not quite sure how to react to; when you go up to pay for a round of four drinks for you and your other friends, she discreetly only charges you for one drink. While you are slightly uncomfortable with this, you certainly do not want to lose the opportunity to save some money, or even worse, to get your friend into any kind of trouble by refusing. And when you tell your other friends about it, they think it is great fun and congratulate you for the cheap round of drinks! In fact, when the next one of your friends is due to go and buy some drinks, he instead asks you to take his money, so that you can do the same trick for him. Although you tell him to get his own drinks, Jenna continues to undercharge you whenever it is your turn to go to the bar.

This goes on for a number of visits. You are happy to get the cheap rounds at the bar but you are not 100% comfortable with what is going on. You decide to at least say something to Jenna when no one else is around. However, when you do end up raising the subject she just laughs it off and says, 'Yeah, it is great isn't it? They will never notice, and you get a cheap night out. Besides, it is only what this place deserves after the way I have been treated.'

QUESTIONS

1. Who is wrong in this situation—Jenna for undercharging you, you for accepting it, both of you, or neither of you?
2. Confronted by this situation, how would you handle it? Do nothing, or ask Jenna to stop undercharging you? If you take the latter option, what would you do if she refused?
3. To what extent do you think that being deliberately undercharged is different from other forms of preferential treatment, such as Jenna serving you in front of other waiting customers?
4. Does the fact that Jenna feels aggrieved at the treatment she receives from her boss condone her behaviour? Does it help to explain either her actions or your actions?

problems tend to be very controversial and open to widely different points of view. In this sense, business ethics is not like subjects such as accounting, finance, engineering, or business law where you are supposed to learn specific procedures and facts in order to make objectively correct decisions. Rather, it is about gathering relevant evidence, and systematically analysing it

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through particular lenses and tools (as discussed in more detail in Chapter 3) in order to come to an informed decision that has taken account of the most important considerations. So studying business ethics should help you to make *better* decisions, but this is not the same as making unequivocally *right* decisions. Business ethics is principally about developing good *judgement*.

DEFINING MORALITY, ETHICS, AND ETHICAL THEORY

Some of the controversy regarding business ethics is no doubt due to different understandings of what constitutes morality or ethics in the first place. Before we continue, it is important for us to sort out some of the terminology we are using.

In common usage, the terms 'ethics' and 'morality' are often used interchangeably. This probably does not pose many real problems for most of us in terms of communicating and understanding things about business ethics. However, in order to clarify certain arguments, many academic writers have proposed clear differences between the two terms (e.g. Crane 2000, Gert and Gert 2017). Unfortunately, though, writers have offered somewhat different distinctions, thereby potentially serving more to confuse us than clarify our understanding. Nonetheless, we do agree that there are certain advantages in making a distinction between 'ethics' and 'morality'. Following the most common way of distinguishing between them:

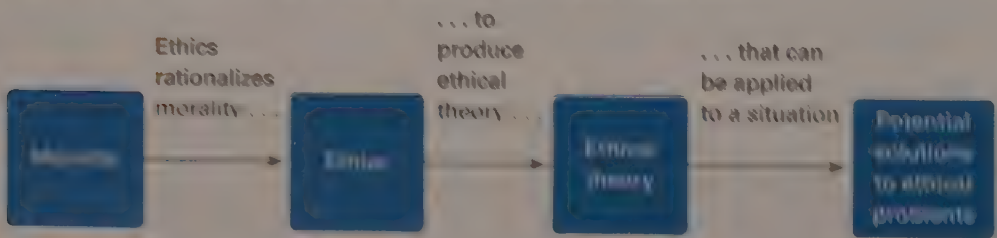
Morality is concerned with the norms, values, and beliefs embedded in social processes which define right and wrong for an individual or a community.

Ethics is concerned with the study of morality and the application of reason to elucidate specific rules and principles that determine morally acceptable courses of action. Ethical theories are the codifications of these rules and principles.

According to this way of thinking, morality precedes ethics, which in turn precedes ethical theory (see Figure 1.2). All individuals and communities have morality, a basic sense of right or wrong in relation to particular activities. Ethics represents an attempt to systematize and rationalize morality, typically into generalized normative rules that supposedly offer a solution to situations of moral uncertainty. The outcomes of the codification of these rules are ethical theories, such as rights theory or justice theory.

A word of caution is necessary here. The emergence of the formal study of ethics has been aligned by a number of authors (e.g. Bauman 1993, Johnson and Smith 1999) with the modernist Enlightenment project, and the idea that moral uncertainty can be 'solved' with recourse to human rationality and abstract reasoning. As we shall show in Chapters 3 and 4, this has come under increasing attack from a number of quarters, including feminists and postmodernists. However, it is important at this stage to recognize that *ethics* is about some form of

Figure 1.2 The relationship between morality, ethics, and ethical theory



rationalization of *morality*. The importance of this distinction will hopefully become clearer, and will certainly become more pertinent, as we start to examine these and other theories (in Chapter 3), as well as assessing how they feed into ethical decision-making in business (in Chapter 4). Indeed, contributing to the enhancement of ethical decision-making is one of the primary aims of this book, and of the subject of business ethics more generally. In the next section, we shall briefly review this and some of the other reasons why studying business ethics is becoming increasingly important today across the globe.

WHY IS BUSINESS ETHICS IMPORTANT?

Business ethics remains a very prominent topic, and debates surrounding the subject have attracted a lot of attention from various quarters, including consumers, the media, non-governmental organizations (NGOs), and, of course, companies themselves. This attention to ethics confronts organizations, whatever line of business they might be in. In **Ethics in Action 1.1**, for example, the case of supporting employment for people with disabilities in the dynamic Indian Information Technology (IT) industry shows the challenges faced in changing culture and embedding ethical practice in an organization.

There are many reasons why business ethics might be regarded as an increasingly important area of study, whether as students interested in evaluating business activities or as managers seeking to improve their decision-making skills. Consider the following:

1. **Business has huge power within society.** Business affects almost every aspect of our lives, and can even have a major impact on the democratic process of government. Evidence suggests that many members of the public are uneasy with such developments. For instance, one poll revealed that a large majority of the US population believe that powerful groups such as senior politicians (60%), lobbyists (58%), and advertisers (34%) have very low levels of honesty and ethical standards.[2] This raises a host of ethical questions and suggests we need to find new answers to the question of how we can either restrain this power or ensure that it is used for social good rather than the exploitation of the less powerful.
2. **Business has the potential to provide a major contribution to our societies.** Whether in terms of producing the products and services that we want, providing employment, paying taxes, acting as an engine for economic development, or solving complex social problems, business can be a tremendous force for good. How, or indeed whether, this contribution is actually realized in practice goes to the heart of the business ethics debate. European research suggests 49% of people think the contribution of business to society is overall negative. So while there is potential for a positive contribution, business has some reputational challenges to overcome, or perhaps needs seriously to reflect on the quality of the contribution made (European Commission 2013).
3. **Business malpractice has the potential to inflict enormous harm on individuals, communities, and the environment.** When the Rana Plaza building collapsed in Bangladesh in 2013, more than 1,000 garment workers stitching clothes for suppliers of Western retailers died, having been forced to return to work after the building was evacuated and declared unsafe (Reinecke and Donaghey 2015). Most ethical issues are not as extreme as the risk of death, but business does impinge on the health and welfare of individuals, the security of communities, and the natural environment.

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Ethics in Action 1.1 **Tackling the talent crunch in Indian IT**

Sanjukta Choudhury Kaul

The Indian IT industry is hugely important with over 50% of revenue coming from international markets, particularly Europe and the USA, accounting for 7.7% of the country's gross domestic product.[1] The brutally competitive sector is fraught with challenges—pricing pressures, changing business models, a turbulent global political context, and, not least, an extreme talent crunch—a skilled labour shortage. This is the story of one human resources (HR) manager of an Indian IT business and her experience in trying to do her job responsibly and ethically.

Meera, an HR professional with several years of industry experience, was excited about her new role at Futuristic Technologies, a financial services technology start-up headquartered in Bengaluru (known as India's 'Silicon Valley'), with employee strength of 200 people. A determined professional, driven by passion for her work, Meera wanted to bring her corporate experience to the start-up. As a rapidly growing young business there was an urgent need to quickly formalize processes and systems for attracting and retaining talent, offering competitive pay and nurturing a high-performance work environment.

The business had a pretty standard start in life, with energetic entrepreneurs focused on the products offered rather than the organization itself. Nikhil and Deepak, the 30-something founders of Futuristic Technologies, had met abroad a few years ago. They quickly developed a professional partnership, applying their technical competencies and passions to create their first start-up. The first-generation entrepreneur-duo were ambitious, smart, and public relations savvy. While extremely competent with their technical skills and deep product knowledge, Nikhil and Deepak had little patience in building a people-centric organization. Their start-up was facing the typical critical challenges in terms of locating, hiring, and retaining the existing workforce. Therefore, when one of their mentors recommended getting Meera for the job of HR manager, given her outstanding past experience, they swiftly acted to get her on board.

Nikhil and Deepak repeatedly articulated to Meera the urgency of 'quickly locating the right kind of young talent and skills who will fit the fast-paced company'. Given the fight for talent, this was going to be tricky. Meera realized she needed to think outside the box. She started looking for inspiration in the Futuristic Technologies employee database. Her brow furrowed as she realized that 87% of the employee base were men between the ages of 27 and 35, belonging to a specific religion. Nearly 90% of recent new employees had been hired from just two of the neighbouring Indian states, and in a multilingual country, nearly the whole company spoke a single Indian language. Meera was the only woman with a senior role in the firm. Diversity, in terms of gender, age, disability, sexual orientation, race, ethnicity, and religion, simply was not a part of the strategy. The vast majority of the employees looked, sounded, and to all intents were the same as the founders. Though not surprised, as she pushed away from the desk and walked to look through the large glass window of her office, Meera wondered why the business seemed to use cloning as a hiring strategy. This did not seem to be either an ethical or productive way forward.

Over the next few months, Meera increasingly became convinced that, going forward, the main challenge for Futuristic Technologies was to build a well-diversified workforce. Apart from a gut feeling that this was the right thing to do, she was also influenced by a meeting with an impressive non-governmental organization (NGO), Inclusive India Foundation, which pursues social and economic independence for people with a disability through training and education. The organization had placed several professionals with some of the large Indian IT companies, and had acted as facilitators for businesses, creating better understanding of people with a disability as employees through their programmes and workshops. This might be just what we need, Meera reflected. Meanwhile, she also knew about regulatory changes in the country and the passing of the Rights of Persons with Disabilities Bill (2016). Time to act, she thought; I will present my ideas at the next weekly meeting of the leadership team.

[1] Some of the details of this case have been adapted for publication.

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As Meera stood up to give her presentation, she was pleased that she had managed to get some attention from the corporate leadership for her agenda to bring people with disabilities into the firm, tackling the unethical approach to diversity and the talent crunch in one go. Applauding her for some great ideas at the end of her presentation, Deepak excitedly said, 'You have the full support of the Board, but this must go under our corporate social responsibility (CSR) initiative. At Futuristic Technologies we must do something to solve the problem of these unfortunate people'. Nikhil chipped in, 'This is great, Meera, but I am not sure if the deaf and dumb people can do our complex jobs. But Futuristic Technologies must reserve financial support for the initiative; in any case the new regulation is still very ambiguous and I am not sure if it is binding for private businesses of our size and specialization.' The language her bosses used shocked her, and was a symbol of what she was up against. With great difficulty, Meera managed a half smile as she realized the voluminous gap between her vision and that of her bosses. As she steeled herself for the next course of action, it occurred to her that diversifying the talent pool for Futuristic Technologies was going to be a long road. What had seemed like a terrific proven project to start the process in earnest was being seen as a quirky project of no ethical or strategic value except as a PR stunt.

It dawned on Meera that no single project was going to change things in the long term, though it might help shift perceptions in the short term. What was needed was a cultural change, and some serious conversations about the values and ethics enacted through the business. She literally rolled up her sleeves, and thought, 'Right. Where shall we begin?'

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QUESTION

If, as we have argued, business ethics is not an oxymoron, what do you think about the tension that some business people feel between acting ethically and the perception of what is most effective for the business? In the case of employing people with disabilities in the Indian IT industry, is it ethical, good business, neither, or both? Are there differences in the approach in the short and long term?

Visit the online resources for web links to useful sources of further information.

4. **The demands being placed on business to be ethical by its various stakeholders are becoming more complex and challenging.** It is critical to understand these challenges and to develop responses to them that address the demands of stakeholders but also enable firms to perform their economic role effectively. Getting this balance right remains a vital challenge for managers.
5. **Employees face significant pressure to compromise ethical standards.** For example, a survey of 600 accountants in 23 European countries found that the majority (64%) had

been put under pressure to act unethically during their professional career, with about a third admitting to succumbing to the pressure.[3] Studying business ethics provides us with a way of looking at the reasons behind such infractions, and the ways in which such problems might be dealt with by managers, regulators, and others interested in improving ethical practice.

6. **Business faces a trust deficit.** Globally, only 52% of the general public trust business, reserving particular ire for the media, which only 43% trust. Enhancing business ethics will be a critical component in restoring that trust in the future, and the majority of people look to business to take a lead on this.[4]

Having identified some of the reasons why business ethics is important, we should also make it clear that there are a number of problems with the subject of business ethics. The limits of the business ethics discipline have been a subject of discussion for decades (e.g. Stark 1994; Sorrell 1998), even prompting one team of business ethics textbook authors to admit that 'we are not particularly fond of "business ethics"' (Jones et al. 2005: 1). After all, despite many years of business ethics being researched and taught in colleges and universities, ethics problems persist and the public remains sceptical of the ethics of business. However, in the main, these concerns are directed at how theories of business ethics have been developed and applied (see Fryer 2016), rather than questioning the importance of business ethics as a subject per se.

There appears to be a growing consensus regarding the importance of addressing questions of business ethics, whether on the part of students, academics, governments, consumers, or, of course, businesses. Modules in business ethics are now being run in universities across much of the world. As *Businessweek* magazine put it, ethics and profits is the 'B-Schools' new mantra' (Stonington 2011). There has also been an outpouring of books, and magazine, journal, and newspaper articles on the subject, as well as web pages, blogs, and other electronic publications—amazon.com currently lists more than 20,000 books related to business ethics, while a Google search on 'business ethics' returned more than 180 million hits at the time of writing. Even through television and cinema, business ethics issues are reaching a wide audience. There are high-quality documentaries such as **Ethics on Screen 1**, *All the Queen's Horses*, which tells the startling story of a financial controller's systematic corruption in small-town America. Films such as *The Big Short*, the subject of **Ethics on Screen 6**, raise a number of critical business ethics issues and have played them out to millions of viewers across the globe.

Similarly, we have witnessed significant growth in what might be regarded as the business ethics 'industry', i.e. corporate ethics officers, ethics consultants, ethical investment trusts, ethical products and services, and activities associated with ethics auditing, monitoring, and reporting. One UK survey, for instance, estimates the country's 'ethical market' (i.e. consumer spending on ethical products and services) to be worth something like £78 billion annually.[5] The ethical market ranges from organic and fair trade foods to responsible holidays, energy-efficient products, ethical banking, and ethical clothes. As **Ethics in Action 1.2** shows, organizations such as Ethics Girls have sprung up to help consumers navigate these new market niches—and to promote the idea that ethics is important for consumers too.

What is clear then is that business ethics has been recognized as increasingly important, and has also undergone rapid changes and developments during the past decade or so. This has been the case not only in large corporations, but also in small and medium-sized enterprises (SMEs), in public sector bodies (such as the case of the city of Dixon in **Ethics on Screen 1**), and

Ethics in Action 1.2 Ethical fashion for Ethics Girls

Want to buy a new pair of jeans, but also care about how much the workers were paid to make them? Think there may be space in your life for an iPhone case made from upcycled fire hose and reclaimed parachute silk? Well, being ethical does not have to mean being unfashionable anymore, at least not according to the UK-based Ethics Girls organization. The Ethics Girls seek, as they put it, to 'set the example' in 'ethical fashion, shopping and ideas'. Featuring a shop, magazine, and even the opportunity to become a member of the Ethics Girls co-operative, they promise to 'take the guilt out of ethical consumption, to make life and our choices simpler'.

Unlike some ethical shopping sites, such as the Ethical Consumer organization's online buyers' guides (which provide detailed scorecards for a wide range of products in numerous categories), Ethics Girls do not claim to have a particularly robust research methodology. Their approach is style led rather than research led, with an emphasis on lifestyle journalism and the promotion of positive choices among young women. And perhaps more than anything, it shows the continuing transformation and maturation of the marketplace as a place for ethical shoppers of all kinds—and not just diehard activists—to go for advice, information, and inspiration.

SOURCES

Ethics Girls website: http://www.ethicsgirls.co.uk.

Ethical Consumer website: http://www.ethicalconsumer.org.

QUESTIONS

Have you ever changed your decision about what to buy on the basis of ethics?

1. What factors might influence you and why? You might consider factors such as who has produced the product, what they were paid, the conditions they worked in, what environmental damage was done, how the product can be disposed of or recycled.
2. What brands do you know which have a reputation for ethics?

Visit the online resources for web links to useful sources of further information.

non-profit organizations too. Let us now take a closer look at how business ethics issues might be manifested in these rather different organizational contexts.

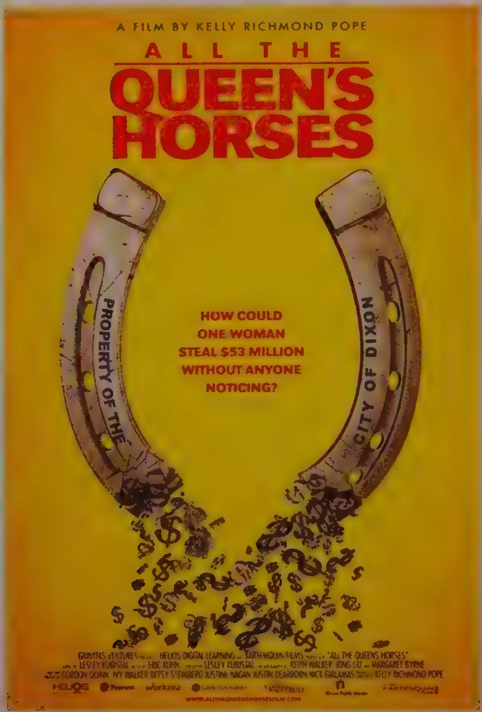
BUSINESS ETHICS IN DIFFERENT ORGANIZATIONAL CONTEXTS

It should be clear by now that whatever else we may think it of it, business ethics clearly matters. It matters not just for huge multinational corporations like McDonald's, Nestlé, Shell, or HSBC, but also for a range of other types of organizations. Some of the issues will inevitably be rather similar across organizational types, while others differ considerably.

For example, if we look at differences across industrial sectors, it is clear that some issues are simply more important than others, as Anja Schaefer (2013) has noted, and examples of which are shown in **Table 1.1**.

Such sector differences as shown in **Table 1.1** are still more pronounced in smaller firms that are built around their product or service rather than taking on the form of large bureaucratic systems, which may be more similar whatever the business sector.

ETHICS ON SCREEN 1 *All the Queen's Horses*



All the Queens Horses, directed by Kelly Richmond Pope. Courtesy of Kartemquin Films / Helios Digital Learning

Small town. Large fraud. Global problem

Kelly Richmond Pope is an accounting professor who got so intrigued by a particular case of financial fraud that she ended up making this documentary about it. While some documentaries are pursuing a very clear agenda, Richmond Pope manages to offer a balanced account of what, in the end, is both unethical and illegal activity. Going beyond the obvious ideas around the bad character of one individual, she pushes further, to also investigate the culpability of individuals and organizations which enabled one person's fraudulent and deeply unethical behaviour to play out.

The story begins by acknowledging that no one would ever have guessed that a small city in Dixon, Illinois in the USA was home to a world-class thief, who embodied corrupt practices and lacked any sense of responsibility for the people she worked with. At least, no-one guessed for 20 years, during which time Rita Crundwell—financial controller and treasurer, and a trusted member of the small, tight-knit community—embezzled US$53 million. It was Rita's close colleague, Kathe Swanson, who sounded the alarm when she by chance spotted large amounts of the city's money being transferred into a personal account care of Rita Crundwell. Ever the accountant, Crundwell unwittingly helped the subsequent FBI investigation because she kept very good records of her fraud. She covered her tracks by generating fake invoices that were then paid into her secret account. Her success lay in the simplicity of the process and the position of overarching authority which she held, and because, as one Dixon resident put it, 'people just trusted her so well'. Another resident notes that she was a nice person because she *had* to be, to maintain that trust.

Where did all that money go? With somewhat of a raised eyebrow, *All the Queen's Horses* tells us that Rita had a hobby—she bred a particular breed of horse at world championship level, and this helped to hide her unexplained wealth. Her tracks were covered by curious and spurious rumours of how much money she made from her horses. But then she spent her money locally and many people benefitted. In a sick twist, whether consciously or not, the names of Rita's horses pointed to her questionable wealth—'Jewellery by Tiffany' and 'Packin' Jewels' were two examples. Rita loved horses. It turned out that she owned an astounding 400 show horses on 22 farms across many States.

Giving us a bigger picture to the scandal, Kelly Richmond Pope puts the case in context. The city of Dixon was running a huge deficit. A similar neighbouring city noticed this and alerted Dixon, but nothing was done at the time. This white-collar crime was far from victimless—year after year, cuts were made in Dixon's budget and amenities affecting public safety, public projects, and infrastructure in the town. The FBI determined that, while Rita didn't have a formal accomplice, many factors made it possible for her to be such a successful fraudster, covering a range of areas of business ethics.

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All the Queen's Horses unpacks some of the issues for us directly. First, the governance structure in the organization was weak, which meant that no-one had regular oversight of what Rita was doing, and neither did they recognize that this might be a problem; it was just considered normal, and was arguably a culture of negligence. Any irregularities in the finances were accepted without question, if only because everyone trusted Rita. The other people with governance responsibility were not sufficiently aware of the financial statements they were approving. The auditors responsible for the veracity of the accounts, Clifton, should have been aware of course, but they were lax in their approach, not recognizing the dubious nature of the fake invoices. They also turned out not to be properly independent, since they both created and audited the City of Dixon accounts, as well as dealing with Crundwell's personal tax returns (and never questioning her vast, unexplained income). Such poor practices violated accounting professional ethics, and a settlement was agreed out of court between Clifton and the City of Dixon. Finally Third Bank, which held the fraudulent account, also conceded that they should have questioned some of the irregularities, and they too settled out of court. Multiple layers of questionable competence and ethics enabled Rita Crundwell's fraudulent behaviour. Does Crundwell get her comeuppance? Watch *All the Queen's Horses* to find out.

Visit the online resources for web links to useful sources of information related to this film.

THINK THEORY

The case depicted in *All the Queen's Horses* is both illegal and unethical. How do you think the people who worked with Rita Crundwell felt about her activities? In your view, were they most upset by the illegality or the poor ethics or both?

Visit the online resources for a suggested response.

Table 1.1 Business ethics issues in some key business sectors

Sector	Key Issues
Chemical industry	Competitive practices, environmental responsibility, health and safety, human rights.
Construction industry	Employment issues including modern slavery, health and safety, provenance of raw materials, environmentally sustainable construction (waste reduction, demolition, energy saving, CO_2 emissions), community and supply chain relationships.
Supermarkets	Healthy eating (especially sugar and salt content and pricing strategies), food and packaging waste (especially plastics), power in supply chain relationships, supply chain CO_2 emissions, community relationships, local economic decline of town centre locations.
Information and mobile technology	Competitive practices, fair pricing, global production methods, data protection, protection of consumers (especially children) from harmful materials, energy usage, and CO_2 emissions.
Financial services	Weak regulation, financial crime, responsible lending, sales practices and consumer protection, tax evasion and avoidance.

Source: Adapted from Schaefer (2013)

BUSINESS ETHICS IN LARGE VERSUS SMALL COMPANIES

Small businesses (often referred to as SMEs or small and medium-sized enterprises) typically differ in their attention and approach to business ethics compared to large firms. Much of the business ethics literature has tended to overlook this group of businesses, despite their importance as the main drivers for economic growth. SMEs make up over 95% of most private sector economies (Soundararajan, Jamali, and Spence 2018), the vast majority of which have fewer than ten employees and are known as micro-businesses. Definitions vary, but a straightforward measure commonly used across Europe for an SME is firms with fewer than 250 employees. While individual impact may be limited, in the European Union, for example, collectively SMEs account for over two thirds of private sector employment, and when the financial sector is excluded, well over 50% of value added (Eurostat 2018). In developing countries, the importance of SMEs to community prosperity—and poverty avoidance—is still more pronounced (Soundararajan, Spence, and Rees 2018).

As we show in **Table 1.2**, in comparison to large firms, civil society (by this we mean non-profit, charity, or non-governmental organizations), and public sector organizations, SMEs experience different issues in business ethics, including the lack of time and resources that small business managers have available to focus on ethics, their autonomy and independence with respect to responsibilities to other stakeholders, and their informal, trust-based approach to managing ethics (Spence 1999). Proximity to stakeholders is a driving feature, meaning that employees and community members are of key importance (Lähdesmäki et al. 2017). Accordingly, on-the-ground (and digital) relationships lie at the heart of ethics in SMEs (Spence 2016a).

Large corporations, on the other hand, tend to have much more formalized approaches to managing business ethics. They have considerably more resources available to develop

Table 1.2 Differences in business ethics across organizational types

	Large corporations	Small businesses	Civil society organizations	Public sector organizations
Main priorities in addressing ethical issues	Financial integrity, employee/ customer issues	Employee and community issues	Delivery of mission to clients; integrity of tactics; legitimacy and accountability	Rule of law, corruption, conflicts of interest; procedural issues, accountability
Approach to managing ethics	Formal, public relations and/or systems-based	Informal, personal relationship and trust-based	Informal, values-based	Formal, bureaucratic, regulated
Responsible and/or accountable to	Shareholders and other stakeholders	Owners and family members	Donors and clients	General public, higher-level government organizations
Main constraints	Shareholder orientation; size and complexity	Lack of resources including time	Lack of resources and formal training	Inertia, lack of transparency

sophisticated ethics and compliance management programmes. That said, they are constrained by the need to focus on profitability and shareholder value, as well as the very size, bureaucracy, and complexity of their own operations and the often global supply chain.

BUSINESS ETHICS IN PRIVATE, PUBLIC, AND CIVIL SOCIETY ORGANIZATIONS

In one sense, private, public, and civil sector organizations face some similar ethical issues. Indeed, despite some historical differences, the level of ethical violations observed by employees in different sectors appears to be converging in some ways. However, in other ways, these types of organizations operate in different ethical contexts. While private sector businesses will tend to be responsible primarily to their shareholders or owners, the main responsibilities of civil society organizations (CSOs) are to the constituencies they serve (and to a lesser extent their donors). In the public sector, more attention is paid to higher-level government and the general public. Typical ethical issues prioritized by government agencies will be those of the rule of law, corruption, conflicts of interest, public accountability, and various procedural issues involved in ensuring that resources are deployed fairly and impartially (Moilanen and Salminen 2007). This is usually reflected in a formalized and bureaucratic approach to ethics management, often dictated by regulation. An example here is the UK Public Services (Social Value) Act 2013, which requires those commissioning public services to think about how they can also secure wider social, economic, and environmental benefits.

CSOs, on the other hand, will often be more informal in their approach, emphasizing their mission and values and focusing resources on their cause rather than organizational issues. CSOs may be limited in terms of the resources and training they may typically be able to deploy in relation to managing ethics, whereas government organizations are often restricted by a heavy bureaucracy, which breeds inertia and a lack of transparency to external constituencies.

Although brief, the summary of some of the differences in business ethics across organizational contexts provided in **Table 1.2** should give you some of the flavour of the challenges that managers may face in each type of organization. In this book, we will generally focus more on large corporations than the other types—principally because most of our readers will probably end up working in such organizations. However, as we go through, we will also highlight issues pertinent to small firms, and in the latter part of the book in particular, we will discuss in much fuller detail business ethics issues in CSOs (Chapter 10) and government (Chapter 11). Before we move on, though, we need to consider another important context—namely the global nature of business ethics today.

GLOBALIZATION: A KEY CONTEXT FOR BUSINESS ETHICS?

Globalization has become one of the most prominent buzzwords of recent times and an integral part of contemporary society. In the business community, in particular, there has been considerable enthusiasm about globalization and the business opportunities it is seen to offer. Businesses search for new employees worldwide, supply chains span multiple continents, and global brands such as Coca-Cola, Adidas, and Huawei are now an everyday feature even in the remotest African village. But as much as many businesses (as well as many consumers and employees) have enjoyed the fruits of globalization, they have also experienced a downside. As William

Parrett, the former Chief Executive Officer of Deloitte Touche Tohmatsu (one of the 'Big Four' accounting firms), commented at the World Economic Forum (WEF) in Davos:

> **One effect of globalization has been that risk of all kinds—not just fiscal, but also physical—have increased for businesses, no matter where they operate. Information travels far and fast, confidentiality is difficult to maintain, markets are interdependent and events in far-flung places can have immense impact virtually anywhere in the world.**

So, globalization clearly has some negative effects, even for the business community. But beyond this, it is noteworthy that over the past two decades a significant 'anti-globalization' protest movement has also emerged. Some meetings of global organizations such as the WEF, the World Trade Organization (WTO), or the G8, for example, have been accompanied by criticism and occasionally even violent protest. Hackers have targeted global companies such as Amazon and Sony, while successive battles over fair trade, poverty, food prices, water access, and financial stability have kept the ethical spotlight on the process of globalization. The 'Occupy' movement of the early 2010s, though it had mixed long-term results, revitalized a strident critique of 'corporate globalization'.[6]

In the context of business ethics, this controversy over globalization plays a crucial role. After all, corporations—most notably multinational corporations (MNCs)—are at the centre of the public's criticism on globalization. They are accused of exploiting workers in developing countries, destroying the environment, and, by abusing their economic power, engaging developing countries in a so-called 'race to the bottom'. However true these accusations are in practice, there is no doubt that globalization is the most current and demanding arena in which corporations have to define and legitimatize the 'rights and wrongs' of their behaviour.

Race to the bottom A process whereby multinationals pit developing countries against each other, by allocating foreign direct investment to countries that can offer them the most favourable conditions in terms of low tax rates, low levels of environmental regulation, and restricted workers' rights.

WHAT IS GLOBALIZATION?

Globalization is not only a very controversial topic in the public debate, it is also a very contested term in academic discourse.[7] This is partly due to controversy about its merits and downsides, as we have just alluded to. Moreover, it often gets mixed up with similar ideas such as '*internationalization*', '*Westernization*', or '*homogenization*' (Scholte 2005). While we can say that globalization has many facets, it is useful to understand what its influence is on the role of business. Let us first consider some recent examples that get to the heart of what globalization is.

- The countries of the European Union have been in various states of lingering financial crisis for over a decade. In particular, the fiscal problems of Greece, Ireland, Spain, and Italy have at different times had a substantial effect, not only on the wider system of state finances in the countries of the Eurozone, but far beyond in global financial markets. More recently we have seen the wave of populism, not least in the UK resulting in the vote to leave the European Union in 2016 (known as Brexit), the election of political outsider Donald Trump in the USA (also in 2016), and the rise in elected legitimacy of extreme parties on both the left and right in continental Europe (on the left, Podemos in Spain and Syriza in Greece; on the right, the National Front in France and the Sweden Democrats) (Cox 2018). Globalization entails that *events, which have local roots, have knock-on effects far beyond* in seemingly disconnected places.

- Global climate change has gradually been acknowledged as a critical problem to address across the world. While some companies have taken steps to reduce their emissions and a number of countries have issued regulations limiting greenhouse gas emissions, it is clear that solutions to this global problem can only be achieved if we develop global agreements. The Kyoto Protocol and the Paris Agreement on Climate Change make it very clear that *global problems need global solutions*—and finding these solutions and maintaining global commitment has become one of the big unresolved challenges in managing global issues.
- Luckily, most of us have not been personally affected by acts of terror. But we all are affected by terrorism as we have to go through enhanced security checks in airports, public buildings, or mass events, or have encountered difficulties in getting a foreign visa—just to name some examples. Globalization has led to a situation where *events, people, or ideas from faraway places can have a very palpable effect on people in otherwise unconnected locations and situations.*

The game-changing feature of 'globalization' is that it makes real-time social, political, economic, and cultural exchanges possible between people or organizations without any need for direct physical contact. **Globalization** makes these interactions possible regardless of how close or how far away the different partners are actually located from each other.

Globalization The ongoing integration of political, social, and economic interactions at the transnational level, regardless of physical proximity or distance.

To get a good grasp on what globalization means, two main developments in the last few decades are particularly important.

The first development is *technological* in nature. Modern communications technology, from the telephone through to the internet and digitalization, opens up the possibility of connection and interaction between people, despite the fact that there are large geographical distances between them. Furthermore, the rapid development of global transportation technologies allows people to easily meet with other people all over the globe. While Marco Polo had to travel for many months before he finally arrived in China, people today can step on a plane and, after a passable meal and a short sleep, arrive some time later on the other side of the globe. Territorial distances play a less and less important role today. The people we do business with, or that we make friends with, no longer necessarily have to be in the same place as us.

The second development is *political* in nature. Territorial borders have traditionally been the main obstacles to worldwide connections between people. Thirty years ago, it was still largely impossible to enter the countries in the communist Eastern bloc without lengthy visa procedures, and even then, interactions between people from east and west were very limited. With the fall of the iron curtain and substantial liberalization efforts elsewhere (for instance within the EU), national borders have been eroded and, in many cases, have even been abolished. In Europe, you can drive from Lapland to Sicily without stopping at a single national border. More recently, there has been a backlash against this process of integration, with an increased resentment of migration and free movement, as we discuss in more detail in Case 7. Globalization is a dynamic, continually evolving process.

Nevertheless, political and technological developments mainly account for the massive proliferation and spread of supra-territorial connections. These connections may not always necessarily have a global spread in the literal sense of worldwide coverage, but they no longer need a geographical territory to take place, and territorial distances and borders do not restrict them (Scholte 2005).

We all enjoy various elements of globalization already. For instance, due to the modern communication infrastructure, many of us could closely follow the 2018 FIFA World Cup in Russia, or the wedding in the same year of Prince Harry and Meghan Markle in the UK, live on TV—regardless of our actual location at the time. Such events are global, not in the sense that they actually happen all over the world, but because millions of people follow them, and to some extent take part in them, regardless of the fact that they are in Woolloomoola, Windsor, Washington, or Warsaw. Or think of many of our consumption decisions: we can potentially drink the same Heineken beer, drive the same model of Toyota car, or buy the same expensive Jimmy Choo shoes almost wherever we are in the world—we do not have to be in Amsterdam, Tokyo, or London. Certain global products are available all over the world and if we go out to eat 'Chinese', 'Mexican', or 'Italian', we normally do not have to travel to a certain geographical territory. Or think of the way we do our personal banking: our banks no longer store or provide access to our money in a single geographic location. Most people have a bank card that allows them to withdraw money all over the world, or we can pay our bills via internet banking at home in Istanbul, or while sitting in a cafe in India.

Global communications, global products, and global financial systems and capital markets are only the most striking examples of globalization in the world economy. There are many other areas where globalization in this sense is a significant social, economic, and political process. As we shall now see, globalization also has significant implications for business ethics.

GLOBALIZATION AND BUSINESS ETHICS: A COMPLEX GLOBAL SPACE TO MANAGE

Globalization, as defined in terms of the closer integration of economic activities, is particularly relevant for business ethics, and this is evident in three main areas—culture, law, and accountability.

Cultural issues

As business becomes less fixed territorially, so corporations increasingly engage in overseas markets, suddenly finding themselves confronted with diverse, sometimes even contradictory, ethical demands. Moral values that were taken for granted in the home market may get questioned as soon as corporations enter foreign markets (Bailey and Spicer 2007). For example, attitudes to racial and gender diversity in North America may differ significantly to those in Middle Eastern countries. Similarly, Chinese people might regard it as more unethical to sack employees in times of economic downturn than would be typical in Europe. Again, while Scandinavians tend to regard child labour as strictly unethical, some South Asian countries might have a different approach. Or consider the case of IKEA, which in 2018 rejected an actor for an advert for Ikea Greece on the basis that he 'can't be black for the Greek market'.[8] Was IKEA right to adapt to local standards or was it wrong to compromise its own standards of anti-discrimination and human rights?

The reason why there is potential for such problems is that, while globalization results in the 'deterritorialization' (Scholte 2005) of some processes and activities, in many cases there is still a close connection between the local culture, including moral values, and a certain geographical region. For example, Europeans largely disapprove of capital punishment, while many Americans appear to regard it as morally acceptable. Gun ownership, similarly, is considered normal in South Africa and Canada, but controversial in Japan or Australia. This is one of the contradictions of globalization. On the one hand, globalization makes regional difference less important, since it brings regions together and encourages a more uniform 'global culture'. On the other hand, in eroding the divisions of geographical distances, globalization reveals economic, political, and cultural differences and confronts people with them. This dialectical effect has been a growing subject for research over the past decade (see for instance Iyall Smith 2013).

THINK THEORY

Capital punishment and gun ownership are interesting issues to think about when considering globalization theory and cultural dimensions of ethics, but they only have tangential elements of business responsibility as such. Can you think of some similar examples that a business might have to deal with?

Visit the online resources for a suggested response.

Legal issues

A second aspect is closely linked to what we said previously about the relationship between ethics and law. The more economic transactions lose their connection to a certain territorial entity, the more they escape the control of the respective national governments. The power of a government has traditionally been confined to a certain territory; for example, French laws are only binding on French territory, UK laws on UK territory, and so on. As soon as a company leaves its home territory and moves part of its production chain to, for example, an emerging economy, the legal framework becomes very different. Consequently, managers can no longer simply rely on the legal framework when deciding on the right or wrong of certain business practices. If, as we said earlier (see section 'Business ethics and the law'), business ethics largely begins where the law ends, then globalization increases the demand for business ethics because globalized economic activities are beyond the control of national (territorial) governments. One striking example of how companies might skilfully benefit from these confines of the law are the tax avoidance strategies of Apple, Google, Starbucks, and Amazon, who have all been criticized for paying only marginal amounts of tax. Through a complex system of transfer pricing between subsidiaries and by exploiting differences in tax legislation in various countries of operation, these companies were able to minimize their tax payment without breaking the letter of the law in any particular jurisdiction. More recently, new legislation in the UK has sought to tackle these excesses.[9]

Accountability issues

Taking a closer look at global activities, it is easy to identify corporations as a dominant actor on the global stage: multinationals own the mass media that influence much of the information

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and entertainment we are exposed to, they supply global products, they pay our salaries, and they pay (directly or indirectly) much of the taxes that keep governments running. Furthermore, one could argue that MNCs are economically as powerful as many governments. For example, the revenue of Walmart is larger than the gross domestic product (GDP) of many major economies including Australia, South Korea, and India (Myers 2016). However, whereas the Australian government has to be accountable to the Australian people and must face elections on a regular basis, the managers of Walmart are formally accountable only to the relatively small group of people who own shares in the company. The communities in the USA, the UK, or Chile that depend directly on the company's investment decisions, however, have next to no influence on them and, unlike a regional or national government, Walmart is, at least in principle, not legally accountable to these constituencies.

What this means is that the more economic activities become global, the less governments can control them, and the less they are open to democratic control by the people affected by them. Consequently, the call for direct (democratic) accountability of MNCs has become louder in recent years, as evidenced, for example, by the Occupy movement, which we mentioned above. Put simply, globalization leads to a growing demand for *corporate accountability*. We shall examine this argument fully in Chapter 2, but this is a clear example of why business ethics is in demand, since it offers the potential for corporations to examine and respond to the claims made on them by various stakeholders. Indeed, globalization can be seen to affect *all* stakeholders of the corporation, as we shall discuss in Part B of this book. Some examples of these impacts are presented in **Table 1.3**.

Table 1.3 Examples of the ethical impacts of globalization on different stakeholder groups

Stakeholders	Ethical impacts of globalization
Shareholders	Globalization provides potential for greater profitability, but also greater risks. Lack of regulation of global financial markets, leading to additional financial risks and instability.
Employees and workers	Corporations outsource production to developing countries in order to reduce costs in the global marketplace—this provides jobs but also raises the potential for exploitation of employees through poor working conditions.
Consumers	Global products provide social benefits to consumers across the globe but may also meet protests about cultural imperialism and Westernization. Globalization can bring cheaper prices to customers, but vulnerable consumers in developing countries may also face the possibility of exploitation by MNCs.
Suppliers and competitors	Suppliers in developing countries face regulation from MNCs through supply chain management. Small-scale indigenous competitors are exposed to powerful global players.
Civil society (pressure groups, NGOs, local communities)	Global business activity brings the company into direct interaction with local communities, thereby raising the possibility for erosion of traditional community life. Globally active pressure groups emerge with the aim to 'police' the corporation, in countries where governments are weak and corrupt.
Government and regulation	Globalization weakens governments and increases the corporate responsibility (CR) for jobs, welfare, maintenance of ethical standards, etc. Globalization also confronts governments with corporations from regions with different cultural expectations about issues such as bribery, corruption, taxation, and philanthropy.

GLOBALIZATION AND BUSINESS ETHICS: LOCAL CHALLENGES TO ADDRESS

So far in this section we have accentuated the homogenizing effects of globalization: it creates a distinctive space where business faces similar ethical questions worldwide. Paradoxically, though, globalization also has an opposite effect on business: the more business becomes global, the more it gets exposed to regions and countries where ethical values and practices are still vastly different. From this perspective it is important to note that the formal academic subject of business ethics is largely a North American invention and has most of its roots, and a large part of its traditions, in the US, while, for instance in Europe, it only became visible from the beginning of the 1980s (van Luijk 2001). In presenting a text from an international perspective, we believe that, although many of the original ideas in business ethics have been, and still are, very useful in, say, the African, Latin American, or Asian context, there are definite limits to the transfer of North American approaches into the rest of the world. For instance, the European context poses some distinctly different questions, which are not necessarily on the agenda from an American perspective (Spence 2002). Likewise, Asia has quite a distinct historical, philosophical, and religious legacy, giving rise to a different approach to the study, as well as the practice, of business ethics in Asia (Kalleberg and Hewison 2013; Ip 2009). At another level, it is also critical to think beyond developed countries in shaping our knowledge and understanding of business ethics. After all, it is in emerging economies and the developing world where many ethical issues in business are most pressing (Soundararajan, Spence, and Rees 2018), and insights from Asian, African, and Latin American ethical perspectives are therefore essential for situating business ethics in a truly global context.

INTERNATIONAL VARIETY IN APPROACHES TO BUSINESS ETHICS

Various authors have claimed that there are certain fundamental differences in the way in which business ethics is practised and studied in different parts of the world. Much of this early work initially focused on Europe and North America (e.g. van Luijk 1990; Vogel 1992, 1998), but there have also been studies emerging since then on Africa (Naude 2017; Rossouw 2005; Visser et al. 2006), Australasia (Collins et al. 2009; Jonson et al. 2015), Latin America (Haslam 2007; Vives 2007), and Asia (Kalleberg and Hewison 2013; Ip 2009). In this section, we shall look at these differences in relation to six key questions and discuss some of the specifics of business ethics in various regions or countries globally. An example of this discussion with regard to three key regions is summarized in **Table 1.4**. In so doing, we recognize that, given their cultural diversity and geographical spread, some regions such as Africa or Asia are perhaps harder to generalize about than Europe or North America. However, the point is not to make an absolutely definitive statement about business ethics in different regions of the world, but to show that any approach to business ethics is likely to be driven by the cultural and historical context of the region or country.

Who is responsible for ethical conduct in business?

North America is typically said to exhibit a strong culture of individualism, suggesting that individuals are responsible for their own success. Hence, if there are demands for solving ethical questions, it would be the individual who is usually expected to be responsible for

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Table 1.4 Regional differences from a business ethics perspective: the example of Europe, North America, and Asia

	Europe	North America	Asia
Who is responsible for ethical conduct in business?	Social control by the collective	The individual	Top management
Who is the key actor in business ethics?	Government, trade unions, corporate associations	The corporation	Government, corporations
What are the key guidelines for ethical behaviour?	Negotiated legal framework of business	Corporate codes of ethics	Managerial discretion
What are the key issues in business ethics?	Social issues in organizing the framework of business	Misconduct and immorality in single-decision situations	Corporate governance and accountability
What is the dominant stakeholder management approach?	Formalized multiple stakeholder approach	Focus on shareholder value	Implicit multiple stakeholder approach, benign managerialism

making the right choices. There is some impressive literature dealing with individual ethical decision-making emanating from the US (as we shall discuss in Chapter 4), and many US textbooks focus on decision-making at this level (Schwartz 2017; Treviño and Nelson 2014). In Asia, however, hierarchy is generally much more important, and so top management is typically seen as responsible for ethical conduct. Similar perspectives can be found in Africa or India, where long-standing tribal and close-knit family-based communities tend to embed the individual in a broader social context in which responsibility for decisions is more a collective than an individual matter. Somewhat similarly, in Europe it has traditionally been thought that it is not the individual business person, nor even the single company, that is primarily expected to be responsible for solving ethical dilemmas in business. Rather, it is a collective and overarching institution, usually the state. European business ethics has therefore tended to focus more on the choice *of* constraints compared with the North American approach of focusing on choice *within* constraints (Enderle 1996). A specific flavour of this approach can then be found in Central Europe and post-communist countries, where individuals have tended to assign responsibility for ethical behaviour primarily to the larger collective or bureaucratic entities that govern economic or social life (Lewicka-Strzalecka 2006).

Comparative analysis of business ethics. Understanding the differences in cultural norms and moral values between different countries and regions is an important skill in business ethics. Comparative analysis helps you to understand that key issues, actors, and guidelines for ethical conduct always need to be understood in the specific geographic context where a business operates.

Who is the key actor in business ethics?

In North America, in most (but not all) areas, the institutional framework of business ethics has traditionally been fairly loose, so that the key actor has tended to be the corporation. This, at least partly, explains the rather practical approach to business ethics evident in the North American approach (Enderle 1996). Similarly, given that business ethics is particularly important when the law has not yet codified the 'right' or 'wrong' of a certain action, this would also seem to partially explain the longer legacy of business ethics as an academic subject in North America. However, the identification of the corporation as the key actor in North America also means that corporate misconduct tends to face greater enforcement and harsher penalties (Vogel 1992).

Conversely, in most European countries there is quite a dense network of regulation on most of the ethically important issues for business. Workers' rights, social and medical care, and environmental issues are only a few examples where it could be said that European companies have not traditionally had to give much consideration to the moral values that should guide their decisions. These questions have, at least in principle, been tackled by the government in setting up a tight institutional framework for businesses. Examples range from the Scandinavian welfare state to the German codetermination system and the strong position of trade unions and workers' rights in France (Matten and Moon 2008).

In Europe, governments, trade unions, and corporate associations have therefore been key actors in business ethics. A similar focus on government tends to be evident in the Asian perspective, although it is corporations rather than trade unions that have typically been involved with governments in this activity. For example, in Japan, firms are interconnected with one another and with the government through *keiretsu* arrangements, while South Korea exhibits a similar *chaebol* structure. In China, many large corporations are still state owned. Hence, engagements with business ethics in Asia often look to both governments and corporations as key actors.

Moving to developing countries in Africa or Latin America, however, the so-called 'third sector', i.e. non-governmental organizations (NGOs), is often a key player within the arena of business ethics. One of the reasons for this lies in the fact that governments in these regions are often underfunded or even corrupt, and, therefore, provide limited guidance or legal frameworks for ethical decision-making. In Latin America, for instance, NGOs are the key players in organizing, incentivizing, or co-ordinating ethical initiatives by business (Haslam 2007). NGOs also partner with business (and governments) in public-private partnerships to address urgent ethical issues, such as poverty, disease, or lack of education—as we will discuss in more detail in Chapter 10.

What are the key ethical guidelines for ethical behaviour?

The differing character and extent of the legal frameworks globally to some degree necessitates different approaches to business ethics. Similarly, it also suggests that whereas the key practical guidelines for ethical behaviour in some regions, such as in Europe, tend to be codified in the negotiated legal framework of business, in Asia there is greater managerial discretion, giving rise to a more organic and flexible approach to ethical decision-making that places considerable emphasis on personal virtues and collective responsibility and relationships (Koehn 2016). In North America, there is a strong reliance on rules and guidelines for business conduct, but rather than coming from government (as in Europe), these tend to come from businesses themselves in the form of corporate codes of ethics and internal compliance programmes (Matten and Moon 2008). Nonetheless, these are often put in place to avoid the potentially hefty fines that accompany breaches by organizations or individuals of particular US law (known as the US federal sentencing guidelines) (Vogel 1992).

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As the Asian context suggests, these differences become even more pronounced once we leave the context of Western and industrialized countries. Deon Rossouw (2005: 98), for instance, argues that business ethics in the African context is predicated on the philosophy of *Ubuntu*, a value system in which the 'commitment to co-existence, consensus, and consultation' is prized as the highest value in human interaction. While Rossouw infers that *Ubuntu* explains the absence of shareholder supremacy in African corporate governance, the somewhat similar Chinese notion of *guanxi* exposes a general tension with these traditional values: they sometimes fly in the face of certain fundamental Western ethical beliefs. The *guanxi* idea puts close, reciprocal, trusting interpersonal ties at the core of human interaction, which has led some commentators to mistakenly question whether in Chinese business relations, the *guanxi*-informed practice of gift-giving in fact amounts to little less than an indifference to bribery (Ho and Redfern 2010).

What are the key issues in business ethics?

This contrast is often manifested in the types of issues deemed important within business ethics in different contexts. This becomes evident when looking at contemporary US business ethics textbooks, since they tend to accord a considerable amount of space to issues such as privacy, workers' rights, salary issues, and whistleblowing, to name just a few. These are deemed to be the responsibility of the individual company, since the state, in principle, does not take full responsibility for regulating these issues.

The European approach, in contrast, has tended to focus more on social issues in organizing the framework of business. Hence, European business ethics textbooks have tended to include greater consideration of subjects such as the ethics of capitalism and economic rationality (Enderle 1996). In Asia, concerns about the responsible organization of business have given rise to a focus on ethical issues in relation to corporate governance and the accountability of management for practices such as mismanagement and corruption. Specifically in China, the latter issue is high on the agenda of the government, exemplified by the fact that some of the biggest business ethics scandals to hit the country have led to arrests and even the execution of corrupt officials (Ip 2009).

In the developing world in general, there seems to be a predominant focus on the ethical obligations of business to provide jobs that pay a living wage, and to provide fairly priced goods and services (Visser 2008). Next to these basic economic functions of business, ethical considerations in the developing world place a particular expectation on multinationals—particularly foreign ones—to contribute to local development, healthcare, and education.

What is the most dominant stakeholder management approach?

Another important aspect that follows from the above is the variety in institutional arrangements shaping the form and purpose of corporations in different countries (Husted et al. 2016). European corporations, in general, are smaller than their North American counterparts, and may be more likely to see multiple stakeholders (as opposed to simply shareholders) as the focus of corporate activity. European, African, and Asian models of capitalism are not so dominated by the drive for shareholder value maximization, compared with North American companies. European companies are often managed by large executive and supervisory boards, with a considerable amount of interlocking ownership structures between companies and close bank relations (van Luijk 1990). Asian companies also feature a great deal of structural integration, but the interests of employees and other stakeholders are often promoted through cultural norms of trust and implicit duties, rather than formal governance mechanisms (Johnson, Whittington, and Scholes 2011). This sort of arrangement might be thought of as a form of 'benign managerialism' (Parkinson 2003: 493), an approach that has a long-standing tradition in countries such as India, where companies like Tata have attempted to honour ethical obligations to multiple stakeholders for decades (Elankumaran et al. 2005). This approach is also visible in Latin America, where much of the economy is dominated by smaller, often family-owned firms and where the key stakeholder from a business ethics perspective is the employee (Vives 2007).

SOURCES OF DIFFERENCE BETWEEN DIFFERENT REGIONS GLOBALLY

From where have such differences emerged? Comparing the US and Europe—two otherwise very similar contexts seen from a global perspective—can serve as an instructive backdrop in answering this question. Many of these differences in business ethics are rooted in the differing cultural, economic, and religious histories of Europe and the US (Palazzo 2002). One argument here is that the influence of the Catholic and Lutheran Protestant religions in Europe led to a collective approach to organizing economic life, whereas the individual focus of the Calvinist-Protestant religion in the US led to the rise of a distinctly different capitalist economic system (Weber 1905). Even though today we tend to talk about much of Europe and North America as secularized, there are significant differences in the religious legacies of the two regions—which in turn have a significant impact on the different approaches to business ethics in different regions.

This becomes even more pronounced in other parts of the world where the active practice of religion is sometimes still more embedded than in the West. In Asia, the influence of Hinduism, Buddhism, and Confucianism, for example, could be said to have led to a more pragmatic, relational, and flexible approach to ethical decision-making (Koehn 2016). The Muslim world, although diverse in its spread over three continents, is characterized by a number of ethical principles, of which justice/fairness, trusteeship, and integrity ('unity') can be considered core (Hussain, Shahmoradi, and Turk 2016). Such religiously informed ethical values can have far-reaching implications for business, as the example of Islamic financial systems shows (Nomani 2008) (see **Chapter 6**).

Next to religious influence, differences in business ethics can also have other historic roots. Georges Enderle (1996) suggests that the interest in broader macro issues of business ethics in Europe can also be partly traced to the need to rebuild institutions after the Second World War and in the aftermath of economic and political restructuring in Eastern Europe. Moreover, Vogel (1992) argues that the focus on individual action and codes of conduct in the US has been substantially driven by the impact of widely publicized corporate scandals, which have focused attention on the need to avoid ethical violation at the firm level (see also Verstegen Ryan 2005). In a similar vein, many of the specific challenges for business ethics in the developing world, be it poor governance, extreme poverty, or violence, can be understood as a heritage from colonial times (Banerjee 2009), as is particularly visible in countries such as South Africa, Brazil, or Myanmar. In some countries, such as Canada or Australia, it is mining companies—rather than just governments—that are exposed to ethical claims, based, for instance, on past and current discrimination against indigenous groups (Lertzman and Vredenburg 2005).

GLOBALIZATION AND THE ASSIMILATION OF DIFFERENT GLOBAL REGIONS

As we can see then, there are a number of reasons that can be advanced to explain differences in business ethics across countries and regions of the globe. But does this mean the differences are likely to be sustained, given the ongoing processes of globalization? Certainly, globalization has mitigated some of the peculiarities of business systems globally. Therefore, however important it is to see the differences between different regions, there is a clear tendency towards some degree of assimilation in the different business systems. In Europe, this has been manifested in a decrease in the importance of (especially national) governmental regulation for business. Globalization has resulted in a rapid and comprehensive move towards deregulation of business activities, which increasingly puts businesses in contexts similar to the American version of capitalism (Matten and Moon 2008). This is even more noticeable if we focus on Central Europe and former communist countries: economies in transition are typically characterized by a weak state and a deficit in law enforcement, which together leave a growing number of ethical issues to be tackled by businesses (Lang 2001). This trend towards a greater convergence of business systems and firm characteristics is visible in most parts of the world; however, we also see that certain fundamental characteristics and differences remain and will continue to have relevance (Yoshikawa and Rasheed 2009).

In this book, therefore, we provide the following balance between the different positions on the main variations in business ethics evident in different parts of the globe:

- Rather than selecting either one or the other, we will consider both the individual decision-maker and the corporation itself as responsible for ethical conduct—and consider top managers as well as rank-and-file organization members. Although it is clearly individuals in organizations who ultimately make business ethics decisions, many non-US perspectives suggest that we also have to look at the context that shapes those decisions. Moreover, most of us quite naturally regard corporations as significant actors in business ethics. If there is an incident of industrial pollution or it is revealed that children are being used in an overseas factory, it is usually the company as a whole that we criticize rather than any specific manager(s).
- We will focus on the corporation in its relations with other key actors, such as government, NGOs, and trade unions.
- We will include different kinds of businesses in our discussions, including small and medium-sized enterprises, cooperatives, state-owned and social enterprises, as well as traditional corporations.
- We will provide a critical perspective on both managerial discretion and ethical guidelines (such as codes of conduct), and broader forces shaping ethical decision-making, such as product and financial markets, supply chains, civil society, and systems of governance.
- The morality of single business situations will be considered in the context of corporate governance and the broader organizing framework of business.
- A multiple stakeholder approach that includes shareholders as a particularly important constituency will be taken. As we will outline in Chapter 2, this assumes some intrinsic rights for stakeholders rather than focusing only on their role in affecting shareholder value.

It is clear that working in global businesses is another layer of challenge from an ethics perspective. Practitioner Spotlight 1 is on Kené Umeasiegbu who has worked in Nigeria, Estonia, Brazil, and the Netherlands—all very different cultural contexts—on his path to a career in responsible business. He specializes in the environment and sustainability, the subject of the following section.

SUSTAINABILITY: A KEY GOAL FOR BUSINESS ETHICS?

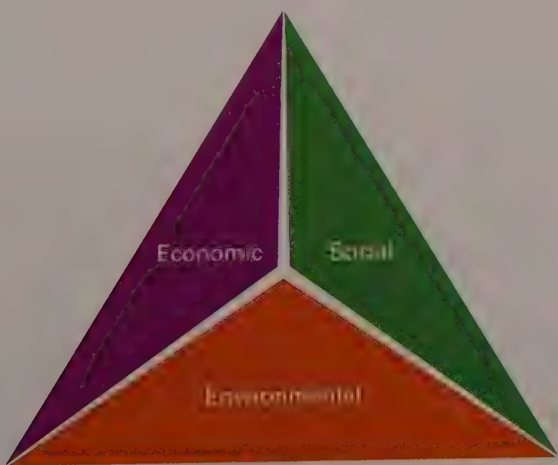
At the same time that these challenges of globalization have emerged, considerable interest has also been directed towards the development of new ways of addressing the diverse impacts of business in society. Many of these impacts are far-reaching and profound. To mention just a few, one only needs to think of impacts such as:

- the environmental pollution, in particular the effects on climate change, caused by the production, transportation, and use of products such as cars, refrigerators, or newspapers;
- the ever-increasing problems of waste disposal and management as a result of excessive product packaging, especially plastics, and the dominance of our 'throwaway culture';
- the devastating consequences for individuals and communities as a result of plant closures, 'downsizing', or 'outsourcing' as experienced throughout Europe and North America; and
- the erosion of local cultures and environments due to the influx of mass tourism in places as diverse as Thai fishing villages, mountain villages in the Andes, or ancient Roman monuments.

Faced with such problems (and many more besides), it has been widely suggested that the goals and consequences of business require radical rethinking. One concept in particular has been widely promoted (though not unilaterally accepted) as the essential conceptual frame for assessing not only business activities specifically, but industrial and social development more generally. That concept is ***sustainability***.

With its roots in environmental management and analysis, sustainability for some is largely synonymous with environmental sustainability. Crucially, though, the concept of sustainability is now more commonly thought of in broader terms to include not only environmental considerations, but also economic and social considerations (Elkington 1999). This is shown in **Figure 1.3**.

Figure 1.3 The three components of sustainability



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PRACTITIONER SPOTLIGHT 1 Carving out a career in responsible business

Success in a corporate sustainability role requires subject matter expertise, as well as an understanding of the business environment and management processes. How do we ensure a perfect balancing act in a large multinational corporation? We spoke to **Kené Umeasiegbu, Head of Environment at British retailer Tesco plc**, about how he has developed a unique set of 'navigation' skills.

Can you broadly describe your current job role? Tesco is a multinational groceries and general merchandise retailer with around 6,500 stores in nine countries across the globe. As Head of Environment, I am responsible for developing and implementing Tesco's environment strategy, covering climate change, marine sustainability, zero deforestation, sustainable agriculture, and water. Our environment strategy includes both our impacts on the environment and any risks to our business from a changing environment. It covers our own operations, distribution, and supply chain (our supply chain includes manufacturing and agriculture). I am based in our UK headquarters, but my role is global, meaning that we work with colleagues across the business to deliver our strategy in a range of international locations.

What has been your career path to date? My undergraduate degree was in Geology, and this sparked my interest in sustainability as a result of the environmental crisis in the Niger Delta. I was interested in understanding how political and business choices could enable sustainable development. I then went to work for the youth leadership charity—AIESEC—in Nigeria, Estonia, Brazil, and Netherlands. This experience helped shape my cross-cultural leadership capabilities. Eventually, I decided to build my career in corporate responsibility, focusing more on how a business creates wealth than how it spends it. In the early noughties, there was no clear pathway into a CR or sustainability career (outside the philanthropy or community areas). So, I decided to carve out mine. . .

I joined the Human Resources team at Cadbury Schweppes in 2003. With the support of my manager, my career development plan was designed to include the opportunity to 'shadow' our CR department (which focused on CR reporting at the time). Through this opportunity I became involved in Cadbury's CR agenda as it matured over the years. My understanding of the wider business through my HR experience enabled me to shape the CR agenda in a way that technical experts and consultants could not. Following that initial 'shadowing' opportunity, I was offered a full-time role in supply chain sustainability. During this role, I also completed an MSc in Responsibility and Business Practice. After Cadbury, I took a number of consulting roles at the Carbon Trust and Carnstone Partners. These roles gave me the chance to deepen my experience in environmental sustainability, gain exposure to different sectors, and also sharpen my strategic thinking skills. However, after five years, I found that I was missing delivering an agenda from start to finish. So, I decided to return to industry. I was offered an opportunity at Tesco where I have been for the last five years.

What practical skills are needed to do your job? An understanding of sustainability is an important foundation for my role. However, my success as a practitioner depends on my ability to apply this expertise in driving solutions at scale within my business and industry. For instance, a detailed understanding of the causes of deforestation or climate change is important, but success actually depends on driving change: getting our business to switch to zero deforestation commodities or renewable electricity. Achieving this requires a) making a pragmatic business case that is sensitive to important issues including reputation, security of supply, consumer pressure, policy alignment, etc; b) developing a plan that addresses any real-life barriers to change, such as cost, cash flow, organizational culture, individual resistance, etc; and c) effectively pulling on the levers of change, e.g. communicating a clear strategy, winning allies, and weaving sustainability into business planning cycles. I think of these as 'navigation capabilities'. When more detailed, technical expertise is needed, I would hire a consultant for a limited period of time.

What are the key benefits and challenges of your role? I would summarize the key benefits and challenges as follows:

Benefits:

- Working for a big business means that when we drive change, it can move the market;
- We can influence our suppliers to support our sustainability strategy;
- There are many allies of sustainability across all levels of business—we just have to find a way to engage them while helping deliver their own professional goals;
- Colleagues working in my team are highly motivated to do their 'job'—for them, it is more than a job, it is a vocation.

Challenges:

- Navigating this agenda through a big company can take a lot of time—and require a lot of patience;
- Sometimes the case for sustainability can be too long term, while requiring short-term investment. Those are the toughest cases to secure support for within business;
- There is never enough resource to address all the areas we care about. The passion of sustainability practitioners can lead them to working too hard for too long. It is important to ensure the team remains resilient and focused on priorities.

SOURCES

https://www.tescoplc.com/little-helps-plan.

https://www.aiesec.co.uk.

Visit the online resources for more Practitioner Spotlight interviews.

This extension of the sustainability concept arose primarily because it is not only impractical, but even sometimes impossible, to address the sustainability of the natural environment without also considering the social and economic aspects of relevant communities and their activities. For example, while environmentalists have opposed road-building programmes on account of the detrimental impact of such schemes on the environment, others have pointed to the benefits for local communities of lower congestion in their towns and extra jobs for their citizens. Another argument for this extension is the consideration that if equity is to be extended to future generations, then logically it should also be extended to all those in the current generation. Hence, one of the primary espoused aims of the World Commission on Environment and Development was

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the eradication of world poverty and inequity. As we see it then, sustainability can be regarded as comprising three components—environmental, economic, and social.

Sustainability has become an increasingly common term in the rhetoric surrounding business ethics, and has been widely used by corporations, governments, consultants, pressure groups,

Sustainability The long-term maintenance of systems according to environmental, economic and social considerations.

and academics alike. Despite this widespread use, sustainability is a term that has been utilized and interpreted in substantially different ways (Montiel and Delgado-Ceballos 2014). Probably the most common usage of sustainability, however, is in relation to sustainable development, which is typically defined as a 'strategy of social development that meets the needs of the present without compromising the ability of future generations to meet their own needs' (World Commission on Environment and Development 1987). This, however, is only the core idea of an elusive and widely contested concept—and one that has also been subject to a vast array of different conceptualizations and definitions (Gladwin, Kennelly, and Krause 1995; Starik and Rands 1995). So while we would caution against any unreserved acceptance of any particular interpretation, at a very basic level, sustainability appears to be primarily about system maintenance, as in ensuring that our actions do not impact upon the system—for example, the Earth or the biosphere—in such a way that its long-term viability is threatened. By focusing sustainable development on the potential for future generations to satisfy their needs, sustainability also raises considerations of *intergenerational equity*, i.e. equality between one generation and another.

More recently, the sustainability agenda has been dominated by the United Nations Sustainable Development Goals (SDGs), which covers 17 areas, as shown in Figure 1.4. Companies have realigned their sustainability commitments to the SDGs. Coca-Cola (2016), for example, make a statement relative to their business in relation to each of the 17 goals.

The SDGs were envisioned to be a solution to the world's problems, particularly poverty, hunger, and climate change by 2030. While the SDGs have been taken up widely as a way of branding, their impact is more limited. In Ethical Corporation's *The Responsible Business Trends Report 2018*, 69% of respondents said their companies were incorporating them into their strategy. But 56% of respondents suspected 'SDG-wash'—the idea that the company's commitment is superficial only (Dowd 2018). Five important objections to the goals noted by Jason Hickel (2015) include:

1. The contradiction of growth. In the end, the only really environmentally helpful way to tackle the excessive burden on the world's resources is for the world's wealthy people to reduce consumption, not to seek more creative ways of growing.
2. Growth doesn't reduce poverty. The assumption that growth will benefit the poor avoids the necessary redistribution of resources and overlooks the fact that growth normally benefits those who already are prosperous, not the poorest.
3. Inequality is ignored. An earlier version of the SDGs included a commitment to tackle the inequitable distribution of wealth (the richest 1% own half the world's private wealth) but was eliminated from the final document.
4. Big drivers of poverty are not discussed, such as unfair trade, financial speculation especially on food, tax evasion, and debt cancellation.

Figure 1.4 UN Sustainable Development Goals

Source: By kind permission of the United Nations

5. Mis-measurement of poverty. The SDGs focus on poverty eradication as being at an income level of $1.25 per day, though a figure of $5 per day is more commonly accepted as a suitable level according to Hickel.
6. McInerney-Lankford (2017) suggests that the SDGs fail to link explicitly to human rights and human rights legislative requirements, except for one mention in a sub-goal.
7. Finally, Smith (2018) goes so far as to say that 'the basic freedoms that underpin and advance human development are missing from the SDG equation', including democracy.

Other issues include the need to go beyond the headline 17 goals to enact the 169 sub goals which sit beneath them and the desirability of dealing with the links between the goals, rather than treating them as independent, as might be more convenient from a business viewpoint. Despite these limitations, the SDGs have provided something of a unifying umbrella for sustainability approaches within business, and have undeniably promoted the idea of sustainability globally.

We regard the idea of sustainability as the long-term maintenance of systems according to social, economic, and environmental considerations as sufficient for determining the essential content of the concept. The SDGs are a helpful way of breaking this down into specific goals, but it is evident that sustainability as a phenomenon also needs to be framed as a distinct, practical goal for business—this is perhaps best encapsulated by the notion of a 'triple bottom line'.

THE TRIPLE BOTTOM LINE

The triple bottom line (TBL) was a term coined by the sustainability thought leader John Elkington many years ago. His view of the TBL is that it represents the idea that business does not have just one single goal—namely adding economic value—but that it has an extended goal which necessitates adding environmental and social value too (Elkington 1999). From this perspective, it should be clear why we have highlighted sustainability as a potentially important goal for business ethics. However, in order to develop a clearer picture of just what the three components of sustainability actually represent in terms of a goal for business ethics, we shall have to examine each of them in turn.

ENVIRONMENTAL PERSPECTIVES

As we mentioned briefly above, the concept of sustainability is generally regarded as having emerged from the environmental perspective, most notably in forestry management and then later in other areas of resource management (Hediger 1999). Indeed, it would probably be true to say that, at the present moment, there is still a fairly widespread conception within business (though, we believe, a mistaken one) that sustainability is mainly an environmental concept.

The basic principles of sustainability from an environmental perspective concern the effective management of physical resources so that they are conserved for the future. All bio-systems are regarded as having finite resources and finite capacity, and hence sustainable human activity must operate at a level that does not threaten the health of those systems. Even at the most basic level, these concerns suggest a need to address a number of critical business problems, such as the impacts of industrialization on biodiversity, the continued use of non-renewable resources such as oil, steel, and coal, as well as the production of damaging environmental pollutants like carbon dioxide and other greenhouse gases from industrial plants and consumer products. At a more fundamental level, these concerns also raise the problem of economic growth itself, and the vexed question of whether future generations can really enjoy the same living standards as us, without a reversal of the trend towards ever more production and consumption. Most companies have understandably been slow to consider the reversal of consumption in their sustainability strategies, but one company that has adopted an interesting position on this is the US outdoor clothing business Patagonia, which in the 2010s campaigned to persuade its customers to buy less, including adverts imploring customers 'Don't Buy This Jacket!'

ECONOMIC PERSPECTIVES

The economic perspective on sustainability initially emerged from economic growth models that assessed the limits imposed by the carrying capacity of Earth.[10] The recognition that continued growth in population, industrial activity, resource use, and pollution could mean that standards of living would eventually decline led to the emergence of sustainability as a way of thinking about ensuring that future generations would not be adversely disadvantaged by the activities and choices of the present generation. Economists, such as Kenneth Arrow (Arrow and Hurwicz 1977) and Nicholas Stern (2008), have since been highly influential in advancing the agenda for a macroeconomic understanding of sustainability.

The implications for business ethics of such thinking occur on different levels. A narrow concept of economic sustainability focuses on the economic performance of the corporation itself: the responsibility of management is to develop, produce, and market those products that secure the long-term economic performance of the corporation. This includes a focus on those strategies that, for example, lead to a long-term rise in share price, revenues, and market share, rather than short-term 'explosions' of profits at the expense of long-term viability. An example of an unsustainable approach in this perspective would be the financial crisis of 2008, which revealed that many financial service providers had engaged in highly risky transactions for short-term gains in profits and executive bonuses.

A broader concept of economic sustainability would include the company's attitude towards, and impacts upon, the economic framework in which it is embedded. Paying bribes or building cartels, for instance, could be regarded as economically unsustainable because these activities undermine the long-term functioning of markets. Corporations that attempt to avoid paying corporate taxes through subtle accounting tricks might be said to behave in an unsustainable way: if they are not willing to fund the institutional environment (such as schools, hospitals, the police, and the justice system), they erode one of the key bases of their corporate success. This issue was brought to wider attention in the 2010s when it surfaced that Starbucks had paid no corporation tax on its £398 million revenues in a single year in the UK. Similar accounting practices were reported in respect of Amazon, Facebook, and Google. While these incidents of tax avoidance were legal at the time, they nevertheless met a public that perceived such corporate behaviour as immoral, causing Starbucks to offer a 'voluntary' tax payment of £20 million.[11]

SOCIAL PERSPECTIVES

The development of the social perspective on sustainability has tended to trail behind that of the environmental and economic perspectives (Scott, Park, and Cocklin 2000) and remains a challenging area of development. The explicit integration of social concerns into the business discourse around sustainability can be seen to have emerged primarily in response to concerns regarding the impacts of business activities on indigenous communities in less-developed countries and regions. It would be wrong to assume that, until this time, local community claims on business (and other social issues) were unheard by business or unexamined by business ethics scholars. Indeed, in Chapter 2 we shall be tracing the rather impressive literature dealing with such issues. However, the inclusion of social considerations such as these within the specific domain of sustainability marked a significant shift in the way that notions of community relations and sustainability were conceptualized.

The key issue in the social perspective on sustainability is that of *social justice*. This applies, first, at the global level, where currently around 80% of the world's GDP is enjoyed by 1 billion people living in the developed world, while the remaining 20% is shared by the 6 billion people living in developing countries.[12] As Robert Reich (2012) has argued in his book and subsequent film,[13] even inequality within countries such as the US is unsustainable, threatening not only the balance of the economy but also the long-term stability of social and political institutions in the country.

Such issues of social sustainability are of utmost importance to business. Reich's suggestions to address this problem, be it reform of the financial system, the strengthening of workers' rights, or a reining-in of corporate influence in politics, all point to private business as one key target of reform. Throughout this book we will discuss a number of these issues and analyse business's responsibility for its impacts on society in a variety of contexts.

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THINK THEORY

Think about inequality in terms of the definition for sustainability provided above. To what extent do you think inequality is relevant for the maintenance of social, economic, or environmental systems?

Visit the online resources for a suggested response.

IMPLICATIONS OF SUSTAINABILITY FOR BUSINESS ETHICS

Given this extended set of expectations placed on business according to the triple bottom line of sustainability, there are clearly significant implications for how we should look at business ethics. Issues of an ethical nature, be they plant closures, product safety issues, or industrial pollution, demand that we think about a diverse and complex range of considerations and concerns. However, to achieve genuine sustainability in any of the three areas, let alone in *all* of them, is perhaps expecting too much. After all, there are few, if any, products, businesses, or industries that can confidently claim to be sustainable in the full sense of the word. However, with the notion of sustainability widely promoted by governments, businesses, NGOs, and academia, it is clearly vital that we understand its full implications and evaluate business ethics practices according to their performance along, and trade-offs between, the different dimensions of sustainability. As Elkington (1999) suggested, the TBL is less about establishing accounting techniques and performance metrics for achievements in the three dimensions (which we shall look at in Chapter 5), and more about revolutionizing the way that companies think about and act in their business. It is these challenges, as they are framed according to each of the corporation's stakeholders, which we shall be examining in the second part of the book.

SUMMARY

In this chapter we have defined business ethics and set it within a number of significant contemporary debates. First, we have shown the importance of business ethics to current business theory and practice, suggesting that knowledge of business ethics is vital in the contemporary business environment. Next, we have argued that business ethics has been recontextualized by the forces of globalization, necessitating a distinctly global view of ethical problems and practices in business. Finally, we have identified sustainability as a crucial concept that helps to determine and frame the goals of business activities from an ethical perspective. In the rest of the book we shall revisit these themes of globalization, international diversity, and sustainability many more times in order to expand, refine, and contextualize the initial arguments put forward here. In Chapter 2, though, we shall move on to consider specifically the social role and responsibilities of the corporation, and examine the emerging concept of corporate citizenship.

STUDY QUESTIONS

1. Critically evaluate the proposition that business ethics is an oxymoron.
2. 'Business ethics is of no practical importance to managers. Debates about right and wrong should be left in the classroom.' Critically evaluate this statement using examples where appropriate.

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3. What is the relationship between business ethics and the law?
4. 'Business ethics do not really matter to small firm owners. They will get away with whatever they can in order to succeed.' Critically examine why such a view of small firms might be pervasive and whether it is likely to be accurate.
5. What is globalization and why is it important for understanding business ethics? Select one multinational corporation based in your home country and set out the different ways in which globalization might have implications for business ethics in that corporation.
6. What is sustainability? To what extent do you think it is possible for corporations in the following industries to be sustainable? Explain your answers.
   (a) Tobacco industry.
   (b) Oil industry.
   (c) Car industry.

RESEARCH EXERCISE

Business ethics issues are reported on regularly in the media. Conduct a thorough investigation of all the incidents that have been reported on a reputable news website based in your home country during the past two weeks.

1. List the incidents that you have unearthed, and identify the main issues and criticisms in each case.
2. To what extent is it possible to classify these as ethical as opposed to legal violations?
3. Which companies have been implicated in each case? Are these large or small businesses, local or international in scope? Explain your findings.
4. In which country has each incident taken place? Can you identify any national or regional influences on the types of cases that have come to light?

KEY READINGS

1. **S.-W., C. 2018. Management education and ethics: Greed is no longer good. *The Economist*, 19 January.**
   This short article describes how studying business ethics has become a source of competitive advantage for managers and the response by business schools to ensure that future business leaders incorporate ethics into their decision-making. It notes some of the different approaches taken in the teaching of business ethics.
2. **Cullum, L., Darbyshire, C., Delgado, R., and Vey, P. 2005. Executives behaving badly. *Harvard Business Review*, September: 106–7.**
   Humour is a great way to start thinking about business ethics. This article presents cartoons focusing on the theme of executives behaving badly in the work environment, and provides a good platform for thinking about why the idea that business ethics is an oxymoron is so embedded in organizational life. Read the cartoons, have a laugh, and then consider what needs to change in organizations in order to get people to take ethics more seriously.

Visit the online resources for further key reading suggestions.

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CASE 1 Global McEthics: should McDonald's ethics be standardized across the globe?

Updated by Simon Oldham

This case examines ethical criticisms of the US fast-food giant McDonald's and explores demands for the company to extend its efforts to maintain legitimacy across the globe. The case focuses on the problems of obesity and unhealthy eating that have confronted the company, which are presented in the context of the broader critique of the chain. These issues cover many of the key concepts around ethics, globalization, and sustainability that are discussed in **Chapter 1.**

McDonald's is truly a multinational corporation. By 2018, over 37,000 McDonald's restaurants in 119 countries were serving approximately 70 million customers a day. The market leader in its industry and one of the most vigorous exponents of a global business approach, McDonald's has pioneered an innovative franchising-centric business model. Over 90% of its restaurants worldwide are owned and operated by franchisees, an approach that has been widely imitated in the fast-food industry and beyond. McDonald's is also hugely popular with its core customer base for providing cheap, fun, and convenient food, earning it a range of affectionate nicknames around the world, including Maccy D's in the UK, Donken in Sweden, McDo in France, Macca's in Australia, and Makku in Japan. As McDonald's heads into the third decade of the 21st century with growing sales, improving customer satisfaction scores, vast numbers of Facebook likes (78 million, to be precise), and a new home delivery partnership with UberEats, its enduring commercial success looks unlikely to falter.

However, since the 1980s, McDonald's has been subject to enormous criticism of its business practices across the world. In the US and Europe, McDonald's has been one of the main corporate targets of environmentalists, animal welfare activists, nutritionists, and social justice campaigners. Not only does the company have the distinction of being the subject of England's longest ever trial—the legendary 1990s McLibel case—but it was also the unwitting subject of the Oscar-nominated film, *Super Size Me*, one of the top 20 highest grossing documentaries of all time. McDonald's has probably faced more store occupations, protests, and online campaigns than almost any other company.

Nutritionists and healthy-eating campaigners continue to roundly criticize the company for its standard fare of low-cost, high-calorie burgers and fries that many see as a major cause of spiralling obesity rates, especially among young people. Even its more recent attempts to introduce healthier menu options have often been greeted with scepticism or hostility, either because they are seen as too little too late, or as simply not as healthy as they are purported to be. Meanwhile, with increasing affluence in Asia and Latin America leading to a wave of diet-related problems similar to those in North America and Europe—such as escalating rates of obesity and diabetes in children and young adults—many have suggested that the new directions that McDonald's has taken in some countries should be replicated everywhere it does business.

Big Mac under attack

When the epic McLibel trial came to an end after more than three years in 1997, the McDonald's corporation must have thought that things could not get any worse. Although partly vindicated by the judge's verdict concerning the veracity of some of the claims made by an obscure London activist group in the late 1980s, the two unemployed campaigners that the huge company had spent millions of dollars taking to court were ruled to have proven several of their claims. These included accusations that the company 'exploits children' with its advertising; was 'culpably responsible' for cruelty to animals; was 'strongly antipathetic' to unions; paid its workers low wages; falsely advertised its food as nutritious; and risked the health of its most regular, long-term customers—hardly a positive message to be sending its millions of customers and critics across the world. The trial attracted massive international publicity, and even sparked the publication of an acclaimed book, TV programme, and a film. Most damaging of all, the McSpotlight website was launched, which immediately made a wealth of information critical of McDonald's, much of it used in the trial, freely available to an international audience, even to this day.

More trouble soon came from across the Channel when anti-globalization campaigners made international headlines for attacking McDonald's stores in France and other parts of Europe—a theme which then extended to other parts of the world between 2000 and 2010, due to an upsurge in anti-American feeling following the invasion of Iraq. At the same time, a major thorn in the company's side in its North American heartland was People for the Ethical Treatment of Animals (PETA), which launched its McCruelty campaign in 1999 to try to force the company to alleviate animal suffering in its supply chain. Having placed a moratorium on its campaign in 2000, after McDonald's agreed to make improvements, it was reactivated in 2009 due to the firm's refusal to adopt less cruel slaughter methods.

However, probably the biggest ethical challenge faced by McDonald's across the globe has been around issues of health and nutrition. With critics claiming that a diet of fast food has been a major contributor to escalating rates of obesity, McDonald's, as the world's leading fast-food company, has inevitably found itself first in the firing line. Among the arguments made by its critics over the years are that the company has failed to provide a balanced menu, that it provides insufficient nutritional information and guidance, and that it actively encourages consumers (especially children) to make unhealthy choices, for example by promoting 'supersize' portions.

Meanwhile, in the face of increasing evidence of worldwide obesity, diabetes, and blood pressure crises, governments started, and have continued, to tackle the fast-food industry in an effort to address these health and nutrition issues. In 2007, France introduced a legal requirement for all advertising of unhealthy food and drink to bear a health message. Ireland, meanwhile, banned all television advertising for food high in fat, sugar, and salt during children's programming hours in 2013. In the UK in 2017, the use of cartoon characters in junk food adverts was banned, as was junk food advertising in media aimed at children. Discussion of further regulation relating to the sale and marketing of fast food appears to be a topic which is here to stay, with Australia's 2018 consultation regarding fast-food calorie labelling, calls in the UK for even greater fast-food regulation of advertising on top of the 2017 legislation, and perennial discussions in Russia of fast-food advertising restrictions.

Big Mac slims down

In the face of such events, and the continuing evolution of regulation, McDonald's has not stood idly by, especially once profits looked to be at risk. Not only were activists and governments focusing more attention on healthier food choices, customer preferences were also clearly changing. The chain launched a substantial turnaround strategy in 2003 where, to many people's surprise, the firm dropped its supersizing options, and put a range of new healthy options on the menu, including salads and grilled chicken flatbreads, oatmeal for breakfast, and even the opportunity for concerned parents to replace fries with carrot sticks and fruit in the ubiquitous children's 'Happy Meals'. Advertising campaigns emphasizing the firm's fresh and healthy new approach accompanied the menu changes, and extended in-store and online nutritional labelling also followed——moves once vigorously resisted by the company.

Beyond its own stores, McDonald's launched a swathe of exercise and sports initiatives specially targeted at young people. Promoted under the theme of 'balanced lifestyles', the company sought to show young people the two sides of a healthy lifestyle: a balanced diet and

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exercise. McDonald's websites in countries across Europe began including sports sections in addition to the usual information about stores and menus, and these have now become a standard feature on national websites. For instance, McDonald's Germany has partnered with DFB, the German Football Association, in a programme to provide soccer badge clubs for children and young people, which has reached more than a million participants. Likewise, McDonald's sponsors Canadian minor league hockey via their 'atoMc' programme, which supports more than 50,000 players a year.

Such developments have met with considerable scepticism from some of the company's critics. This has especially been the case when it has been revealed that some of the firm's new menu items, such as particular salads or oatmeal recipes, contain more fat and calories than the much-maligned hamburger. However, to this and many other criticisms, the company has typically been quick to respond with rebuttals or further refinements in the menu. For example, the firm further refined its Happy Meals formula in US stores in 2012 by reducing the quantity of fries and automatically adding apples, as well as, subsequently, removing cheese burgers from the Happy Meal menu, and reformulating its chocolate milk in 2018. In addition, the firm has attempted to make the nutritional content of their products more transparent by adding calorie labelling to packaging and online calorie calculators in certain regions, as well as launching the 'McVegan' burger in 2017 in some of its Scandinavian restaurants.

Over time, it has become clear that the shifts underway at McDonald's are part of a long-term strategic realignment towards the changing societal values and expectations it is facing. This was further emphasized by a commitment to serve 100% sustainably sourced coffee by 2020, which has been kick-started by Rainforest Alliance-certified sustainably grown coffee being served across its restaurants in Europe, Australia, and New Zealand, as well as in Brazil. Furthermore, in 2013, the company also announced that it would be the first US chain to label all of its fish products with the widely accepted Marine Stewardship Council sustainable fish logo; in 2016 it commenced the purchase of sustainable beef from a Canadian pilot supply chain programme and in 2018 it unveiled a partnership with Starbucks to develop a global recyclable or compostable drinks cup solution.

Surprising to many has also been the firm's gradual embracing of greater transparency, such as the 'Our Food. Your Questions' initiative that was launched in Canada in 2012. The 'Our Food. Your Questions' campaign allows people to submit any kind of questions about McDonald's food to a dedicated website, which it then commits to post online and answer in an open and honest manner. The campaign is an explicit attempt by the company to dispel what it regards as myths about its food and inform the public better about its products because, as its website acknowledges, 'we haven't always done a great job of answering questions'. The campaign was hugely successful in Canada, generating thousands of questions, millions of views, and billions of social impressions, as well as garnering multiple industry awards, and consequently has been rolled out across a number of other regions and countries. In 2013, McDonald's Australia went one step further with a 'Track my Macca's' app that enables consumers to scan their burger's container to discover the source of the food and where it was processed.

In most respects, McDonald's strategy appears to have been a success. Trust in the brand has improved in the face of campaigns such as 'Our Food. Your Questions', as well as its sustainability commitments, and because the menu is healthier, families have a greater opportunity to provide their children with a more balanced meal under the golden arches. Even the firm's fiercest critics seem to have lost some of their momentum in the firm's heartlands in North America and Europe.

Big Mac goes East

Despite the apparent success of the McDonald's ethical turnaround in North America and Europe, many of the same threats to its reputation have returned to haunt the company in Asia. With increasing prosperity in emerging economies such as India and China, the demand for eating out and for a whole range of convenience foods has expanded substantially since the turn of the century. This has come at a time when Western markets for traditional fast food have become saturated, leaving little opportunity for significant growth. Capitalizing on growth in Asia, McDonald's has targeted major store expansion in the region, with the firm targeting 250 store openings a year in China up to 2021, making China McDonald's second largest market after the US.

But as eating habits have changed, so too have health considerations. Rates of obesity in China and India have rocketed since the turn of the century. Although only a few decades ago famine was a more common threat, the region is said now to be facing an oncoming obesity epidemic, with, for instance, China now possessing the highest overweight population in the world. Other diet and exercise-related problems such as diabetes and heart disease are also on the rise.

To date, activists and regulators have not challenged fast-food companies such as McDonald's to the same extent that they have been attacked in Europe and North America, but growing pressure is clearly evident. In China, researchers have shown that the discourse around McDonald's has increasingly shifted from one focused on it being a cheap, modern place for the young, to also incorporating concerns about 'junk food', health and environmental considerations, food safety, and associations with Western imperialism. State intervention in China, designed to tackle the burgeoning health problems associated with obesity, is also increasing, for instance with the introduction of the 'Healthy China 2030' initiative, which aims to embed health education into the school curriculum in order to increase life expectancy. Nevertheless, *Ethical Corporation* magazine revealed that, although widespread in Europe, nutritional information was absent on McDonald's websites for the Philippines, Hong Kong, and China. Moreover, practices now halted in North America and Europe appeared to be much in use in Asia—such as dedicated online kids' zones where the company has been accused of targeting young children with unhealthy food.

The company, this time, has been less slow to respond to its critics—a healthy option corn soup has emerged on the menu in China, vegetarian burgers feature in India, and the games, competitions, and special offers featured on the company's Asian kids' zones have largely been scaled back. But calories are not yet typically posted on menu boards in Asia as they are in the UK or the US, and transparency clearly lags behind developments in Canada and Australia. In general, the overall emphasis on healthy eating, exercise, and a balanced lifestyle has yet to be actively promoted in Asia to anything like the same extent as in North America and Europe, even if countries such as Malaysia and Singapore now feature such programmes. However, signs that the company is moving towards a more globally integrated approach to health and nutrition emerged in 2013 when the company announced that it would start offering healthy options as part of its 'value meals' in all of its 20 major global markets by 2020. The company has also announced plans to promote and market only water, milk, and juice as the beverages in its children's Happy Meals and make all Happy Meals healthier worldwide by 2022.

QUESTIONS

1. Set out the main criticisms that have been levelled at McDonald's in the West. To what extent are these criticisms likely to be replicated in Asia? What differences can be predicted?
2. Describe and evaluate the tactics used by McDonald's in responding to its critics in the past. Will these work to the same degree in Asia?
3. Should McDonald's offer healthy alternatives to the same extent in all of the countries in which it operates, or just those where it has been criticized in the past, or is expecting further regulation? What if customers overseas do not want healthy options?
4. How could McDonald's seek to avoid further criticism in the future? Can the company realistically present itself as an ethical corporation?
5. How sustainable is the fast-food industry from the point of view of the triple bottom line?

Visit the online resources for web links to useful sources of further information on this Case.

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NOTES

[1] For example, Kelemen and Peltonen (2001) analyse the different usage of the concepts of 'ethics' and 'morality' in the writings of Michel Foucault and Zygmunt Bauman, two leading authors in the area of postmodern business ethics. They reveal strikingly different distinctions that, in fact, virtually provide a direct contradiction to one another.

[2] Brenan, M. 2017. Nurses keep healthy lead as most honest, ethical profession. 26 December: https://news.gallup.com/poll/224639/nurses-keep-healthy-lead-honest-ethical-profession.aspx (accessed 7 September 2018).

[3] 'Research among accountants across Europe has revealed the extent to which they come under pressure to act unethically—and how likely they are to succumb', 1 February 2017: https://www.accaglobal.com/uk/en/member/member/accounting-business/2017/02/corporate/ethics-pressure.html (accessed 8 September 2018).

[4] 2018 Edelman Trust Barometer: https://www.edelman.com/trust-barometer (accessed 8 September 2018).

[5] *The ethical consumerism report 2014*. http://www.ethicalconsumer.org/portals/0/downloads/ethical_consumer_markets_report_2014.pdf.

[6] http://occupywallst.org (accessed 9 September 2018).

[7] There is a wide range of literature addressing globalization and its meaning. A good introduction is provided by Scherer and Palazzo (2008a).

[8] https://www.thelocal.se/20180206/ikea-agent-tells-actor-he-cant-be-black-for-greek-market (accessed 10 September 2018).

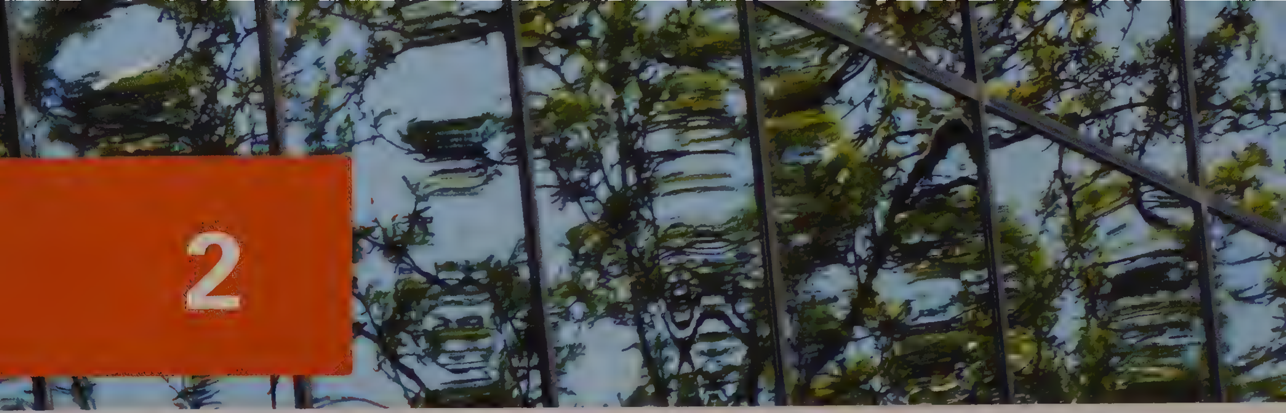
[9] https://www.ft.com/content/00de4f00-b754–11e7–8c12–5661783e5589 (accessed 9 September 2018).

[10] For an early articulation of this relationship, see Meadows et al. (1974). While many of their initial predictions of growth limits proved to be overly pessimistic, the basic principle of carrying capacity has become largely accepted.

[11] http://www.bbc.co.uk/news/business-19967397 (accessed 9 September 2018).

[12] http://www.oecd.org/social/inequality-and-poverty.htm (accessed 10 September 2018).

[13] http://www.inequalityforall.com (accessed 9 September 2018).



2

Framing Business Ethics

Corporate Responsibility, Stakeholders, and Citizenship

Having completed this chapter you should be able to:

- Explain why corporations have social responsibilities.
- Explain corporate social responsibility in terms of its levels, strategies, and outcomes.
- Explain the stakeholder theory of the firm.
- Accurately apply the concepts of corporate citizenship, accountability, shared value, and transparency to the political role of corporation.
- Critically evaluate the implications of applying these theories and concepts to different international contexts.

Key concepts

- Corporate social responsibility (CSR)
- Stakeholders
- Corporate citizenship
- Corporate accountability
- Corporate transparency

TOWARDS A FRAMEWORK FOR BUSINESS ETHICS

In Chapter 1, we defined the subject of business ethics as 'the study of business situations, activities, and decisions where issues of right and wrong are addressed'. In order to address issues of right and wrong, the crucial starting point for businesses is the question of whether companies are actors that have to make decisions beyond simply producing goods and services on a profitable basis. After all, if companies provide us with great products that we want to buy, employ workers to produce them, and pay taxes to government, are they not already providing a sufficient contribution to society? It is the definition and justification of these potentially wider responsibilities that is the subject of this chapter.

We begin by addressing the fundamental nature of the modern corporation in order to answer the question of whether corporations can have a moral responsibility in the same way as individual people do. We then proceed to discuss key themes in the literature on the social role of business, namely corporate social responsibility, stakeholder theory, and corporate accountability. We finish the chapter by exploring the notion of corporate citizenship. We argue that, although this is a more recent concept to have emerged from the literature, and it can be interpreted in a number of different ways, it can be extremely useful for framing some of the problems of business ethics in the global economy that were raised in Chapter 1.

WHAT IS A CORPORATION?

It may seem like an obvious question, but the practical and legal identification of the corporation within any given society has significant implications for how, and indeed whether, certain types of responsibility can be assigned to such an entity. Corporations are clearly not the same as individual people, and before we can decide what responsibilities they might have, we need to define exactly what they are and why they exist in the first place.

The corporation is by far the dominant form of business entity in the modern global economy. Although not all businesses (such as sole traders) are corporations, and many corporations (such as charities and universities) are not-for-profit businesses, we shall concentrate primarily on business in the corporate form.

KEY FEATURES OF A CORPORATION

So what is it that defines a corporation? A corporation is essentially defined in terms of legal status and the ownership of assets. Legally, corporations are regarded as independent from those who work in them, manage them, invest in them, or receive products or services from them. Corporations are separate entities in their own right. For this reason, corporations are regarded as having *perpetual succession*, i.e. as an entity; they can survive the death of any individual investors, employees, or customers—they simply need to find new ones.

This legal status leads to the second key defining feature of corporations. Rather than shareholders or managers owning the assets associated with a corporation, *the corporation owns its own assets*. The factories, offices, computers, machines, and other assets operated by, say, Samsung, are the property of Samsung, not of its shareholders. Shareholders simply own a share in the company that entitles them to a dividend and some say in certain decisions affecting the company. They could not, for instance, arrive at Samsung's HQ and try to remove a computer or a desk and take it home, because it is Samsung that owns that computer or desk, not the shareholder. Similarly, employees, customers, suppliers, etc., deal with and agree contracts with the corporation, not with shareholders.

The implications of this situation are significant for our understanding of the responsibilities of corporations:

- **Corporations are typically regarded as 'artificial persons' in the eyes of the law.** That is, they have certain rights and responsibilities in society, just as an individual citizen might.
- **Corporations are notionally 'owned' by shareholders, but exist independently of them.** The corporation holds its own assets, and shareholders are not responsible for the debts or damages caused by the corporation (they have limited liability).
- **Managers and directors have a 'fiduciary' responsibility to protect the investment of shareholders.** This means that senior management is expected to hold shareholders' investment in trust and to act in their best interests. As we shall see in Chapter 6, the exact nature of the duty this imposes on managers, and how it is legally structured, actually varies across different parts of the world.

This establishes a legal framework for corporations to be open to questions of responsibility, in that a company is legally responsible for its actions in the eyes of the law. However, this is not quite the same as assigning a *moral* responsibility to corporations. After all, it is one thing to say that a person feels a sense of moral responsibility for their actions, and can feel pride or shame in doing the right or wrong thing, but clearly we cannot claim the same for inanimate entities such as corporations. Hence, we need to look a little more closely at the specific nature and responsibilities of corporations.

CAN A CORPORATION HAVE SOCIAL RESPONSIBILITIES?

In 1970, just after the first major wave of the business ethics movement in the US, the Nobel-Prize-winning economist Milton Friedman published an article that has since become a classic text, questioning the alleged social role of corporations. Under the provocative title 'The social responsibility of business is to increase its profits', he vigorously protested against the notion of social responsibilities for corporations. His arguments, which have been rehearsed by many corporate responsibility sceptics over the years (see for example Karnani 2010), boil down to three concerns:

- **Only human beings have a moral responsibility for their actions.** The first substantial point is that corporations are not human beings and therefore cannot assume true moral responsibility for their actions. Since corporations are set up by individual human beings, it is those human beings who have moral responsibility for the actions of the corporation.
- **It is managers' responsibility to act solely in the interests of shareholders.** The second concern is that as long as a corporation abides by the legal framework society has set up for business, the only responsibility of the managers of the corporation is to make profit, because it is for this task that the firm has been set up and the managers have been employed. Acting for any other purpose constitutes a betrayal of their responsibility to shareholders and thus, essentially, represents a 'theft' from shareholders' pockets.
- **Social issues and problems are the proper province of the state rather than corporate managers.** The critics' third main point is that managers should not, and cannot, decide

what is in society's best interests. This is the job of government. Corporate managers are neither trained to set and achieve social goals, nor (unlike politicians) are they democratically elected to do so.

We will deal with the second and third points shortly. First, however, we will examine the proposition that a company cannot be morally responsible for what it does, since its decisions are essentially those of individual people.

2

CAN A CORPORATION BE MORALLY RESPONSIBLE FOR ITS ACTIONS?

Is a corporation just a loose collection of individuals who work together under the same roof, or is it a distinct entity of its own, which can actually assume moral responsibility for the rights and wrongs of its actions? In **Table 2.1** we suggest four moral considerations that most scholars, and indeed the wider public, could relate to corporate activity and help us to answer this very question.

Table 2.1 Four considerations on corporate moral responsibility

Consideration	Description	Example
Legal Identity	Corporations enter into contracts; they are subject to a host of legal requirements, including paying taxes, ensuring the safety of their products, and meeting environmental obligations. Corporations can sue other entities, and vice versa, and can be subject to legal prosecutions. Corporations can also claim a number of rights.	Corporate rights to free speech under the First Amendment to the Constitution of the USA, including the ability to limitlessly fund political campaigns (see the Citizens United v. Federal Election Commission (No. 08-205) (2010) case on political funding).
Agency	Corporations can decide and act independent of their members (Moore 1999) given their internal decision structure manifested in elements such as corporate policies and procedures (French 1979). Acting together, actions are regarded as the result of corporate, not individual, decisions, although this does not completely deny individual agency.	Accenture's Code of Business Ethics aims to provide 'your guide to responsible behaviour, every day' and guide ethical decision making: https://www.accenture.com/_acnmedia/PDF-63/Accenture-CoBE-Brochure-English.pdf.
Organizational Culture	Corporations have a set of beliefs and values that present what is generally regarded as right or wrong in the corporation, namely the organizational culture (Moore 1999). These values and beliefs are widely believed to be a strong influence on the individual's ethical decision-making and behaviour.	The executive director of Ethisphere, which produces an annual list of the 'world's most ethical companies', argues that 'a culture of ethics is crucial to sustainable excellence' (Smith 2013).
Functional Identity	Corporations present themselves and interact with customers and other stakeholders as if they were distinct persons. Many corporations build identities as corporate 'citizens' and espouse the aspiration to act as a good neighbour and partner with other members of society.	Objects of affection (e.g. McDonald's 'I'm lovin' it' slogan), companionship (e.g. Jack Daniels' 'Become a friend of Jack' feature), or personifying the brand (e.g. Colonel Sanders of Kentucky Fried Chicken) are strategies to help build brand identity.

We can therefore conclude that corporations *do indeed* have some level of moral responsibility that is more than the responsibility of the individuals constituting the corporation. In the following sections, we take a closer look at the second argument forwarded by Friedman (1970). This questions any social responsibilities a corporation might have, beyond those that are based on the duty to produce profits for shareholders. In order to do so, we shall discuss the two most influential concepts to have arisen from the business ethics literature to date: corporate social responsibility (CSR) and stakeholder theory.

CORPORATE SOCIAL RESPONSIBILITY

The systematic reasoning about a conceptual framework for CSR started in the US more than half a century ago (Carroll 2008). During this time, many different concepts and principles have been aired and debated in relation to CSR. Such debates have focused on two key questions:

1. Why might it be argued that corporations have social as well as financial responsibilities?
2. What is the nature of these social responsibilities?

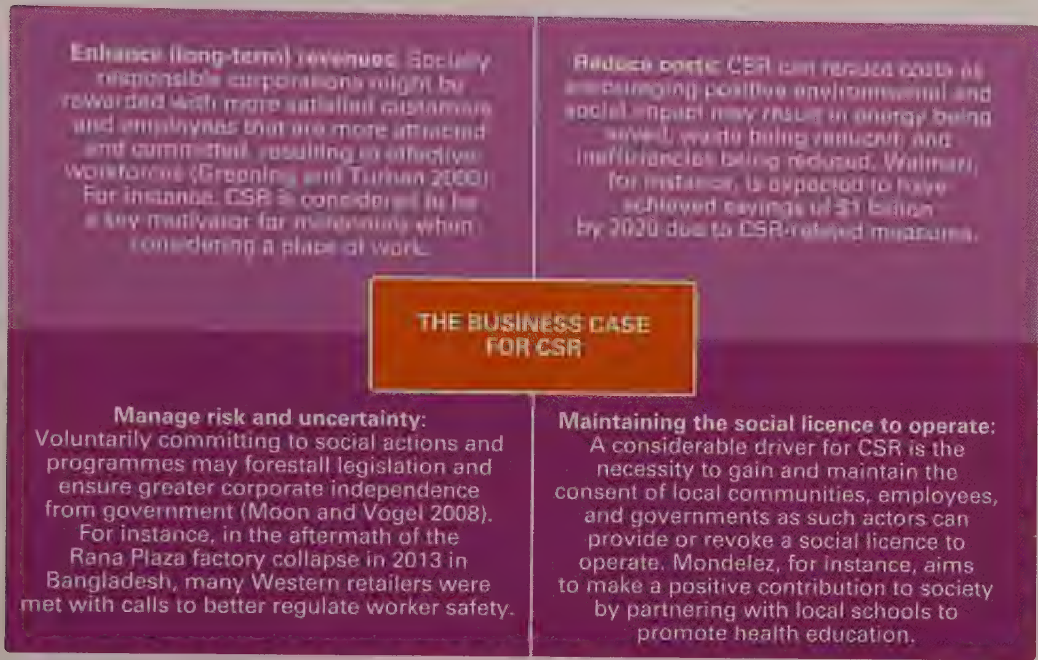
Let us look at each of these two questions in turn.

WHY DO CORPORATIONS HAVE SOCIAL RESPONSIBILITIES?

This first question has raised enormous amounts of controversy in the past, but it is by now fairly widely accepted that businesses do indeed have responsibilities beyond simply making a profit. This is based on a number of distinct, but related, arguments, many of which tend to be couched in terms of *enlightened self-interest*, i.e. the corporation takes on social responsibilities insofar as doing so promotes its own self-interest. Such a 'business case for CSR' is commonly advanced using the four main arguments presented in **Figure 2.1** (see Davis 1973; Mintzberg 1983; Smith 2003; Kurucz, Colbert, and Wheeler 2008).

These are primarily good *business* reasons why it might be advantageous for the corporation to act in a socially responsible manner. Yet, as we will see in **Case 2**, which traces the rise and fall of clothing brand American Apparel, even businesses that are famed for their approach to CSR may have larger ethical questions bubbling under the surface. In recent years, the level of critique around CSR agendas has risen, with many questioning the efficacy of this concept. Building upon Friedman's (1970) argument that when CSR activity is carried out for self-interest, it is not CSR at all, but merely profit-maximization 'under the cloak of social responsibility', critics have suggested that CSR only helps to legitimize corporate activity and consolidate the power of large corporations (Banerjee 2007). This has led Fleming and Jones (2012) to argue that the idea that corporations can pursue profit-seeking objectives *and* be socially responsible is merely a myth, and the authors pessimistically argue that we are witnessing the 'end' of CSR. The crux of the authors' arguments here is that CSR supports, rather than challenges, the current capitalist system and therefore fails to offer any real transformation in the role of business in society. This argument continues to forward the idea of a darker side to CSR, with more recent critical research examining the macro and political role of CSR in promoting and protecting the global trading regime (Hanlon 2011), as well as the micro contexts within which CSR is used as a mechanism to control employees by tying ethical conscience to organizational activity (Costas and Kärreman 2013).

Figure 2.1 The business case for CSR



Source: Adapted from Davis (1973); Mintzberg (1983); Smith (2003); Kurucz et al. (2008)

To a large extent, such critiques relate to the *primary motivations* of the decision-maker (Bowie 1991). It is not so much a matter of whether profit subsequently arises from social actions, but whether profit or altruism was the main reason for the action in the first place. While corporate motives are difficult, sometimes impossible, to determine, recent research has illuminated the individual-level values that mediate responsible management. Schaefer, Williams, and Blundel (2018), for instance, highlight how values of achievement and benevolence significantly shape environmental engagement. Also, despite numerous academic studies, a direct relationship between social responsibility and profitability has been almost impossible to unambiguously 'prove'.[1] Even though the overall weight of evidence seems to suggest some kind of positive relationship, there is still the issue of causality (Orlitzky 2008). When successful companies are seen to be operating CSR programmes, it is just as reasonable to suggest that CSR does not contribute to the success, but rather the financial success frees the company to indulge in the 'luxury' of CSR. Hence, in addition to these business arguments for CSR, it is also important to consider further *moral* arguments for CSR:

- **The externalities argument:** Externalities are the positive and social impacts of an economic transaction that are borne by those other than the parties engaging in the transaction. Corporations create a variety of positive, negative, or neutral externalities of one sort or another through the provision of products and services, the employment of workers, or advertising techniques. Many regard corporations to have a moral responsibility to deal with, in particular, the negative externalities they cause, such as pollution, resource depletion, or community problems, insofar as these are not dealt with by governments.

- **The power argument:** Another important argument is that as powerful social actors, with recourse to substantial resources, corporations should use their power and resources responsibly in society. Some of the world's largest corporations—such as Walmart, Apple, and Shell—now make more money than the gross domestic product (GDP) of many countries,[2] emphasizing the muscle of global corporations. Some refer to this as the Spiderman maxim: 'with great power comes great responsibility'.
- **The dependency argument:** Corporations and societies are mutually dependent. Indeed, corporations rely on the contribution of a much wider set of constituencies, or stakeholders in society (such as consumers, suppliers, local communities), hence they have a duty to take into account the interests and goals of these parties, alongside those of shareholders.

While we have examined a range of moral and business arguments for CSR, the case for CSR is increasingly being challenged, particularly in terms of the accountability of corporations (see the section on **Implications of corporate citizenship: corporate accountability and transparency** later in this chapter). One response to this critique has been Porter and Kramer's (2006) notion of 'Creating Shared Value' (CSV) which provides a vision for a) re-conceiving products and markets by serving consumers and contributing to the common good; b) redefining productivity in the value chain by enhancing the social, environmental, and economic capabilities of supply chain members; and c) enabling local cluster development so that various developmental goals can be achieved through local collaborations. While CSV has become a motivating idea within theory and practice in successfully connecting strategy to social goals, the concept has received critique for its somewhat naïve and simplistic approach, which ignores tensions in corporate activity. This leads Crane et al. (2014: 145) to contend, 'CSV and its shortcomings are, if anything, a stark reminder that this task of understanding the firm as a multi-purpose venture is still an unresolved issue.' And so to our next question: if corporations have some type of social responsibility, what form does that responsibility take?

THINK THEORY

Theories of CSR suggest there are both business and moral reasons for engaging in social initiatives. Go to the website of one or two companies of your choice and find the section dealing with social issues (the page may be headed CSR, sustainability, shared value, or perhaps corporate citizenship) and see what kinds of reasons the corporations give for their involvement in CSR. Is there a balance of business and moral reasons, or does one type of reason predominate? How do you explain this?

Visit the online resources for a suggested response.

WHAT IS THE NATURE OF CORPORATE SOCIAL RESPONSIBILITIES?

Probably the most established and accepted model of CSR that addresses our second question is the 'Four-part model of corporate social responsibility', as initially proposed by Archie Carroll (1979), and subsequently refined in later publications (e.g. Carroll 1991; Carroll and Buchholtz 2015). This model, which simplifies the social responsibilities of a business, is depicted in **Figure 2.2**.

Figure 2.2 Carroll's four-part model of corporate social responsibility

Source: Adapted from Carroll, A.B. 1991. The pyramid of corporate social responsibility: toward the moral management of organizational stakeholders. *Business Horizons* (Jul-Aug): 42, Fig. 3, with permission from Elsevier

Carroll regards **corporate social responsibility (CSR)** as a multilayered concept, which can be differentiated into four interrelated aspects—economic, legal, ethical, and philanthropic responsibilities. He presents these different responsibilities as consecutive layers within a pyramid, such that 'true' social responsibility requires the meeting of all four levels consecutively, depending on the expectations present in society at the time.

Corporate social responsibility The attempt by companies to meet the economic, legal, ethical, and philanthropic demands of a given society at a particular point in time.

- **Economic responsibility.** Companies have shareholders who demand a reasonable return on their investments, they have employees who want good jobs, and they have customers who want their products to satisfy their needs. So the first responsibility of business is to be a well-functioning economic unit and to stay in business. This first layer of the CSR pyramid is the basis for all the subsequent responsibilities, which rest on this (ideally) solid basis. According to Carroll (1991), the satisfaction of economic responsibilities is thus *required* of all corporations. In the extreme, this leads to the idea that some large banks are 'too big to fail', because their basic economic functions are so vital to society that they should be 'bailed out' by governments and taxpayers when in trouble. Indeed, while banks such as The National Bank of Greece, German Commerzbank, and Dutch ABN Amro have been bailed out by their respective governments, American kids' store Toys 'R' Us, British department store House of Fraser, and the South Korean Hanjin

Shipping company are all businesses that have faced little support from their nation states when faced with financial difficulty.

- **Legal responsibility.** The legal responsibility of corporations demands that businesses abide by the law and 'play by the rules of the game'. Laws, as we have seen in Chapter 1, are the codification of society's moral views, and therefore abiding by these standards is a necessary prerequisite for any further reasoning about social responsibilities. In some ways this may sound trivial if we talk about CSR, but the frequent news about court cases against corporations shows that compliance with the law is by no means self-evident. Consider the scandals around mislabelled meat in Europe in 2013, or the massive \$289m in damages Monsanto was required to pay, in 2018, to a terminally ill groundskeeper, who had been using one of their weed-killers without due knowledge of the health hazards of exposure. Legal responsibilities appear to be an ongoing challenge in discharging CSR. As with economic responsibilities, Carroll (1991) suggests that the satisfaction of legal responsibilities is *required* of all corporations seeking to be socially responsible.
- **Ethical responsibility.** These responsibilities oblige corporations to do what is right, just, and fair even when they are not compelled to do so by the legal framework. Consider the public's scrutiny of the tax policies of companies like Apple, Starbucks, Google, and Amazon. While exploitation of loopholes and international differences in legislation allowed these companies to legally avoid substantial tax payments, governments, customers, and the general public reacted with outrage.[3] As we saw in Chapter 1, globalization, if anything, has extended this space where companies face ethical expectations in the absence of legal frameworks. Carroll (1991) argues that ethical responsibilities, therefore, consist of what is generally *expected* by society over and above economic and legal expectations.
- **Philanthropic responsibility.** Lastly, at the tip of the pyramid, the fourth level of CSR looks at the philanthropic responsibilities of corporations. The Greek word 'philanthropy' means, literally, 'the love of the fellow human'. By using this idea in a business context, the model incorporates activities that are within the corporation's discretion to improve the quality of life of employees, local communities, and ultimately society in general. This aspect of CSR addresses a great variety of issues, including charitable donations, the building of recreation facilities for employees and their families, support for local schools, or sponsoring of art and sports events. According to Carroll (1991: 42), philanthropic responsibilities are therefore merely *desired* of corporations without being expected or required, making them 'less important than the other three categories', yet still vital opportunities for differentiation, as we outline in Chapter 10.

The benefit of the four-part model of CSR is that it structures the various social responsibilities into different levels, yet does not seek to explain social responsibility without acknowledging the very real demands placed on the firm to be profitable and legal. In this sense, it is fairly pragmatic. However, its main limitation is that it does not adequately address the problem of what should happen when two or more responsibilities are in conflict. For example, the threat of plant closures and/or job losses often raises the problem of balancing economic responsibilities (of remaining efficient and profitable) with ethical responsibilities to provide secure jobs to employees. A typical example is a company that relocates its operations from the global North to a developing country. While this satisfies the economic level in terms of boosting profits for shareholders and providing employment for hitherto unemployed workers in the developing world, it can clash with ethical responsibilities in terms of abandoning long-standing ties to workers and communities in the North and exploiting lower environmental or social standards overseas. Additional limitations relate to the fact that the model largely prioritizes the managerial perspective, as it is built on a corporate reading of key responsibilities and that it presents a perhaps unattainable notion of the perfectly responsible business. Indeed, we must ask if a business can always live up to all of these responsibilities, particularly in complex international contexts.

CSR IN AN INTERNATIONAL CONTEXT

Much of the literature on CSR has emerged from the US and so it is not surprising that CSR has been particularly prominent in the Western world. In other parts of the globe, however, the concept of CSR has only recently become popular. The main reason for this is that the US tends to leave more discretion to companies over their social responsibilities. This has led to a model of *explicit* CSR, which means that CSR is a distinct, named activity of private companies. Other countries have operated more of an *implicit* CSR model that sees social responsibilities of business tightly embedded in the legal and institutional framework of society (Matten and Moon 2008). In Europe this has been achieved mainly through regulation, whereas in Africa or Asia other, softer institutions such as religious, customary, or tribal traditions have shaped expectations on business. Generally, then, while one could argue that all levels of CSR play a role outside the US, they clearly have different significance and, furthermore, are interlinked in a somewhat different manner. We can, for instance, apply Carroll's (1991) pyramid to the international context, drawing out some stark differences across Anglo-American, European, and developing country contexts:

- **Philanthropic responsibility:** The US has a tradition of donating to the arts, higher education, and local community services (Brammer and Pavelin 2005), whereas in Europe, funding of these activities is usually directed towards government. In developing countries, against the backdrop of widespread poverty, companies are increasingly expected to 'share' their wealth with local communities.
- **Ethical responsibility:** In Europe there is greater mistrust in corporations than in North America, emphasizing the importance of ethical values (Edelman 2014). In developing countries, we find greater levels of trust in business, although assuming economic and philanthropic responsibilities takes precedent over ethical expectations (Visser 2008).
- **Legal responsibility:** The Anglo-American approach sees governmental rules as interfering with private liberty. The European model, by contrast, is focused on the prominent role of the state in regulating corporate practice. In developing countries we find that compliance at the legal level is often not a very reliable standard of responsible behaviour, given weak or corrupt governments.
- **Economic responsibility:** The Anglo-American model is strongly focused on the profitability of companies and responsibility to shareholders. The European and Asian approaches place more emphasis on economic responsibility of corporations towards employees and local communities.

2

As we can see, while the four levels of responsibility are still largely valid in most international contexts, they take on different nuances, and may be accorded different significance. Jamali et al. (2017) have recently argued that mainstream CSR understanding has to be *translated* for applicability in developing countries, and then *adapted* and localized for more meaningful, context-specific application, suggesting that CSR as a tool for sustainable development is culturally embedded. Such research helps to provide greater nuance in conceptions of business ethics in areas including China, India, Nigeria, and Lebanon, where expectations of business differ from the prevailing Western logic. Furthermore, the introduction of a new law in India that stipulates that some of the country's biggest companies (those worth more than 5 billion rupees, or $83 million) must spend at least 2% of their profits on corporate giving[4] highlights how the philanthropic and legal levels of Carroll's pyramid might be interrelated, rather than distinct, categories. Thus, CSR, even if neatly defined along the lines of Carroll's model, still lacks some precision. It does, however, become more concrete if we break it down into different corporate social strategies.

THINK THEORY

Think about the concept of CSR in the context of a multinational with operations in a developing country context. To what extent can a multinational corporation operate a global CSR programme, or is it necessary for such companies to operate CSR on a more national or regional basis?

Visit the online resources for a suggested response.

STRATEGIES OF CSR

The way companies prioritize different levels of CSR depends on their overall strategy. While there is a rich literature discussing CSR strategies under the label of 'corporate social responsiveness' (Carroll 1979; Wood 1991), and 'strategic CSR' (Burke and Logsdon 1996; Porter and Kramer 2006), we will focus on two basic options, as illustrated in **Table 2.2**.[5]

'Traditional CSR' is a rather long-standing approach to social responsibility that, in some ways, has been practised since the Industrial Revolution. It considers CSR as part of a strategy where a company generates its profits without too much consideration for wider societal expectations. However, once the profit is generated, the company then distributes some of the value

Table 2.2 Basic types of CSR strategies

	Traditional CSR	Contemporary CSR
Focus	Risk	Reward
Driver	Image, Brand, Public Acceptance	Performance, Markets, Products
Relation to the bottom line	No direct contribution: CSR is value distribution	Integral goal: CSR is value creation
Responsiveness	Reaction, Defence	Accommodation, Pro-action
Motto	'CSR is bolt-on'	'CSR is built-in'

created to projects, activities, and causes that are important to stakeholders and will ultimately enhance the wider image of the company and bolster its brand identity. Thus, CSR is 'bolted on' (additionally added) to the firm, but without any real integration with its core business. In Carroll's model, CSR for these companies is mostly about philanthropy and has very little to do with the other, lower levels of the pyramid. Typically, companies will adopt a defensive or reactive approach to new societal demands, seeking to protect the company and denying responsibility for the social issues at stake (Carroll 1979).

In the 'Contemporary CSR' approach companies see responsible behaviour as an opportunity to generate profits while at the same time living up to expectations of society. Rather than unilaterally giving out money, they work with stakeholders to understand their interests and expectations, and attempt to cater to their needs by offering business solutions that drive additional value for the firm and their constituencies. CSR for these companies is integral, or 'built in', to core business. Companies that are active in green technologies or invest in more humane workplaces, for instance, would attempt to proactively integrate social expectations directly into their core operations and, ultimately, see CSR as a way to drive new business at a profit. **Practitioner Spotlight** 2 provides useful insight into how strategies for sustainability are being built in an Asian context, courtesy of Richard Welford of CSR Asia.

Both strategic approaches ultimately ask for ways of conceptualizing observable outcomes of business commitment to CSR, namely *corporate social performance*. After all, companies are eager to assess whether philanthropic donations have indeed led to tangible results, or whether new products or new technologies adopted have had the desired societal impact.

OUTCOMES OF CSR: CORPORATE SOCIAL PERFORMANCE

If we are able to measure, rate, and classify companies on their economic performance, why should it not be possible to do the same with its social performance as well? The concept of *corporate social performance* (CSP) has, again, generated a long and varied debate about adequate constructs and measures (Gond and Crane 2010). Donna Wood (1991) has presented a model that is widely regarded as the state-of-the-art and has been extensively cited in the CSR literature. Following her model, CSP can be observed as the *principles* of CSR, the *processes* of social responsiveness (or 'CSR strategy' as we have called it), and the *outcomes* of corporate behaviour. These outcomes are delineated into three areas as explained in **Table 2.3**.

Clearly then, while the outcome of CSR in the form of CSP is an important consideration, the actual measurement of social performance remains a complex task. We shall be discussing some of the potential tools and techniques for achieving this in more detail in Chapter 5. In the meantime, **Ethics in Action 2.1** provides an example of one important implication of the discussion on CSP: we have been witnessing a rise in the number and prominence of rankings and awards that measure and benchmark responsible corporate behaviour. While in some ways this leads to a highly competitive environment for companies who see value in positioning themselves as good CSR performers, it is also important to bear in mind that not all managers are motivated by recognition and competition. Many are adopting activities that align with the UN Sustainable Development Goals (SDGs) behind the scenes purely because this is the right thing to do. A key element in this is to define not only what the corporation is responsible for, but who it is responsible to. This is the task of stakeholder theory, which we turn to next.

2

PRACTITIONER SPOTLIGHT 2 Strategizing for an ethical future

Connecting business strategy to social and environmental goals is not always easy. Over in Hong Kong, **Dr Richard Welford, Chairman of CSR Asia**, is working closely with businesses to help them engage stakeholders in sustainability strategizing. We asked him to tell us more about his journey in establishing a business that acts as a positive force for change in Asia.

Please can you tell us a little more about how you work with business to develop sustainability strategies? We work with a range of business and NGOs—predominantly Asian clients—on a range of consultancy topics including strategy, reporting and disclosure, supply chain management and risk assessment, and community investment. Our approach is tailored to the organizations we work with. Some companies come to us to develop a CSR/sustainability strategy. We will sit down with them and run some industry mapping, benchmarking, materiality assessment, and stakeholder engagement to prioritize key issues. We then work with senior management to develop a focused strategy that is aligned with their core business. We also work with businesses who have sophisticated sustainability strategies already in place, but they approach us with a specific challenge. Just the other day I was working with a company who wanted us to evaluate their supply chain risks in terms of modern slavery, trafficking, and human rights.

What has been your career path to date? I am an economist by background. I became interested in environmental economics following a PhD and soon began consulting with businesses on environmental issues and establishing thought leadership in this area through establishing research centres and writing textbooks. I moved to the University of Hong Kong in 2002 and started working with Asian businesses on these topics. In 2004 we started a business—CSR Asia—to support this consultancy work. At the start there were just four of us, but the business soon took on a life of if its own, as we were the only guys in town. It got to 2010 and then I had to choose: academia or consulting. I decided to leave academia and become full time at CSR Asia. Since then we have continued to grow and 18 months ago we were acquired by Elevate, a global company focused on supply chain audit work. I still have adjunct positions in UTS Sydney and Hong Kong University.

What are the key skills needed to do your role? Working as an academic and consultant requires different skills. You have to live in two parallel worlds and I haven't worked out which one I prefer! The biggest task is to communicate to senior management in a way that is sophisticated and simple. Senior management are not sustainability experts. It can be frustrating when you can't get businesses to do everything you would like them to do. For instance, it is very difficult to get business to talk about climate change in Asia. European companies do great work in this area, but in Asia, I have to focus on galvanizing attention around key risks—how could climate change impact my business?

What are the key future challenges for your profession? I am optimistic that the next generation of managers have had exposure to sustainability thinking. Most business schools now have sustainability on the agenda. This is the source of good news. But we know that the biggest risks are 20 years away—sea level rises, water shortages, crop failures—and businesses are still short term in their thinking. To a business, long term is five years. Few businesses can think 10, 20, 30 years from now. This is the huge contradiction between business and sustainability; we are fundamentally talking about different timescales.

Are there any CSR issues that are specific to the Asian context? We are beginning to see Asian companies that are more sophisticated in the area of CSR, which is very positive. Yet, human rights remain an issue in the Asia Pacific region. We often find that the company itself is clean, but challenges remain in the supply chain. Asia is still, by and large, the world's supply chain and we need to help identify key issues across a range of sectors.

What would your advice be for students who do want to make a difference? I am not sure that it will solve anything for students to move into CSR and sustainability careers. I know that this sounds provocative, but sustainability managers are not the people who are changing the world. It is the CEOs that have the power to change. They meet Presidents and Prime Ministers at the World Economic Forum. This is where change happens. I believe people should do jobs that they love and enjoy. Do what you want to do but be conscious about the change you can create. Do you really want to be a CSR/sustainability person or do you want to learn about it so that when you get to the top of the business you can have that debate?

SOURCE

http://www.csr-asia.com

Visit the online resources for more Practitioner Spotlight interviews.

Table 2.3 Three outcomes of CSR

Social Policies	Social Programmes	Social Impacts
Social policies state the company's values, beliefs, and goals with regard to its social environment. For example, most major firms now include social objectives in their mission statements and other corporate policies. Some corporations also have more explicit goals and targets in relation to social and environmental issues, such as Swedish furniture and home appliance retailer IKEA that has committed to sourcing 100% renewable energy and sourcing all wood from sustainable sources by 2020 and reports on progress through its annual Sustainability report.	Social programmes are activities, measures, and instruments implemented to achieve social policies. For example, many firms have implemented programmes to manage their environmental impacts, based around environmental management systems such as ISO 14000 and EMAS (Environmental Management and Auditing Scheme) that include measures and instruments that facilitate the auditing of environmental performance, or ISO 2600, the international CSR standard.	Social impacts can be traced by looking at concrete changes that the corporation has achieved through the programmes implemented. This is frequently the most difficult to achieve, since much data on social impacts is 'soft' (i.e. difficult to collect and quantify objectively), and the specific impact of the corporation cannot be easily isolated from other factors. Nevertheless, some impacts can be well estimated, for example policies aimed at benefiting local schools can examine literacy rates and exam grades and environmental policies can be evaluated with pollution data.

Source: Wood (1991)

Ethics in Action 2.1 Exploiting the competitive game: the world of CSR Awards

Ever since the rise of CSR practices in business, we have seen a growing number of CSR-related awards and rankings. In such rankings, the 'most responsible', 'most sustainable' company, or the 'best corporate citizen', gets recognized for their performance and progress in the area of CSR. Most appear online on an annual basis, and provide an overview of the most active companies in the field of responsible business. Unsurprisingly, firms take these awards seriously, not least because they are widely promoted and discussed online, giving firms a great opportunity to boast about their CSR credentials.

There is considerable diversity in what actually gets assessed as responsible behaviour across the different awards and rankings. Most look at a host of issues, including environmental performance, treatment of employees, community relations, how well the company avoids irresponsible behaviour (e.g. corruption), as well as particular products and services on offer. But it is also interesting to see the differences between rankings. While the European CSR Award Scheme mostly focuses on partnerships between business and other actors in society, the Asian CSR Awards focus on more specific goals of how well a company contributes to local 'education improvement', 'poverty alleviation', or 'health enhancement'. The awards thus reflect regional differences in what stakeholders expect from a company. In a similar vein, two of the North America-based rankings, the Global 100 and the 100 Best Corporate Citizens lists, explicitly include responsible financial management, good corporate governance, and the pay gap between CEO and the average worker—which clearly reflects some of the key concerns of the North American public in the wake of the financial crisis.

The initiative to conduct these rankings is equally telling. First, we see rankings being conducted by media organizations, such as Corporate Knights, Ethical Corporation, or *Corporate Responsibility Magazine*. The awards help to boost readership as well as providing a way of encouraging companies to enhance their CSR performance. Second, many rankings are published by business-led organizations that were set up with the goal of furthering the implementation of CSR in a particular country or region. *CR Magazine* is the voice of the US-based Corporate Responsibility Officers Association, which, like Business in the Community (BITC) in the UK or CSR Europe at the EU level, aims to promote responsible business practices among its members. Third, we also see consulting firms and think tanks increasingly occupying this space, such as Corporate Register or Sustainia, which both use the internet to solicit entries and publicize winners. Finally, the European CSR Award Scheme is heavily backed by the EU Commission, a pan-European representation of government.

Next to these differences in criteria and the sponsoring organization, we can also observe an increasing diversity in the data used to rank companies. Corporate Register, for instance, focuses exclusively on ranking CSR/non-financial reports of companies and selects winners based on voting by its members. Another influential ranking, the CSR RepTrak 100 Study by the Reputation Institute in New York, instead focuses on the reputation of companies as responsible organizations among a broad panel of stakeholder groups. Others, such as Ethical Corporation's Responsible Business Awards, rely on entrants to enter reports of specific initiatives that are then judged by a panel of experts.

The meaning and relevance of these rankings is not uncontested, though. There is no shortage of social media criticism each time a ranking or award gets announced. This is because nearly all of the rankings include companies that in some of their operations raise serious concerns. For example, most rankings focus almost exclusively on large, publicly listed companies whose footprint is inevitably larger than that of their smaller counterparts. This, at least, is starting to change, with the emergence of two new rankings for small and medium companies—the B Corporation 'Best for the World' ranking of the top 10% of its certified member companies, and *Corporate Knights*' 'Future 40' ranking of Canadian companies with revenues under $2 billion.

Probably the most important effect of the rankings is that corporations are benchmarked against their competitors and thus feel the need to maintain their standing and, if at all possible, outcompete other companies on the list. Since they are so easily accessible on the internet, most rankings are also increasingly important tools for decision-making by stakeholders including consumers, potential employees, governments, and even investors. The demands of the latter stakeholder group have taken the idea of rankings to another level, in that many stock market indices, such as the Dow Jones Sustainability Index or the FTSE4Good, effectively rank companies according to their performance as responsible businesses. In this sense, being responsible clearly pays.

SOURCES

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QUESTION

Take a look at some of the recent winners of the awards listed above. For what are they being recognized? Refer to Wood's (1991) three outcomes of CSR—policies, programmes, and impacts—in responding to this question (see **Table 2.3**). How effective do you see these awards to be in driving sustainable change?

Visit the online resources for web links to useful sources of information related to this issue.

STAKEHOLDER THEORY OF THE FIRM

The stakeholder theory of the firm is probably the most popular and influential theory to emerge from business ethics (Stark 1994). While the use of the term 'stakeholder' in relation to business was first noted in the 1960s, the theoretical approach was popularized by Edward Freeman in the 1980s to promote a broader reading of business responsibility. Unlike the CSR approach, which strongly focuses on the corporation and its responsibilities, the stakeholder approach starts by looking at various groups to which the corporation has a responsibility. The main starting point is the claim that corporations are not simply managed in the interests of their shareholders alone, but that there is a whole range of groups, or stakeholders, that have a legitimate interest in the corporation as well.

Although its basic premise is simple and readily understood, there are numerous different definitions as to who or what constitutes a stakeholder. This range of definitions makes it difficult to get a generally agreed upon idea of what a **stakeholder** actually is. To determine who, in a specific situation, can be considered as a stakeholder, Evan and Freeman (1993) suggest we can apply two simple principles. The first is the *principle of corporate rights*, which demands that the corporation has the obligation not to violate the rights of others. The second, the *principle of corporate effect*, says that companies are responsible for the effects of their actions on others. **Table 2.4** traces some of the early definitions of stakeholders, demonstrating greater specificity in our understanding of broader constituent actors in business relations with society.

Stakeholder An individual or a group that, in the context of a specific situation, is either harmed by, or benefits from, the corporation, or whose rights the corporation should respect.

This clarification makes clear that the range of stakeholders differs from company to company, and even for the same company in different situations, tasks, or projects. However, a typical representation is given in **Figure 2.3**.

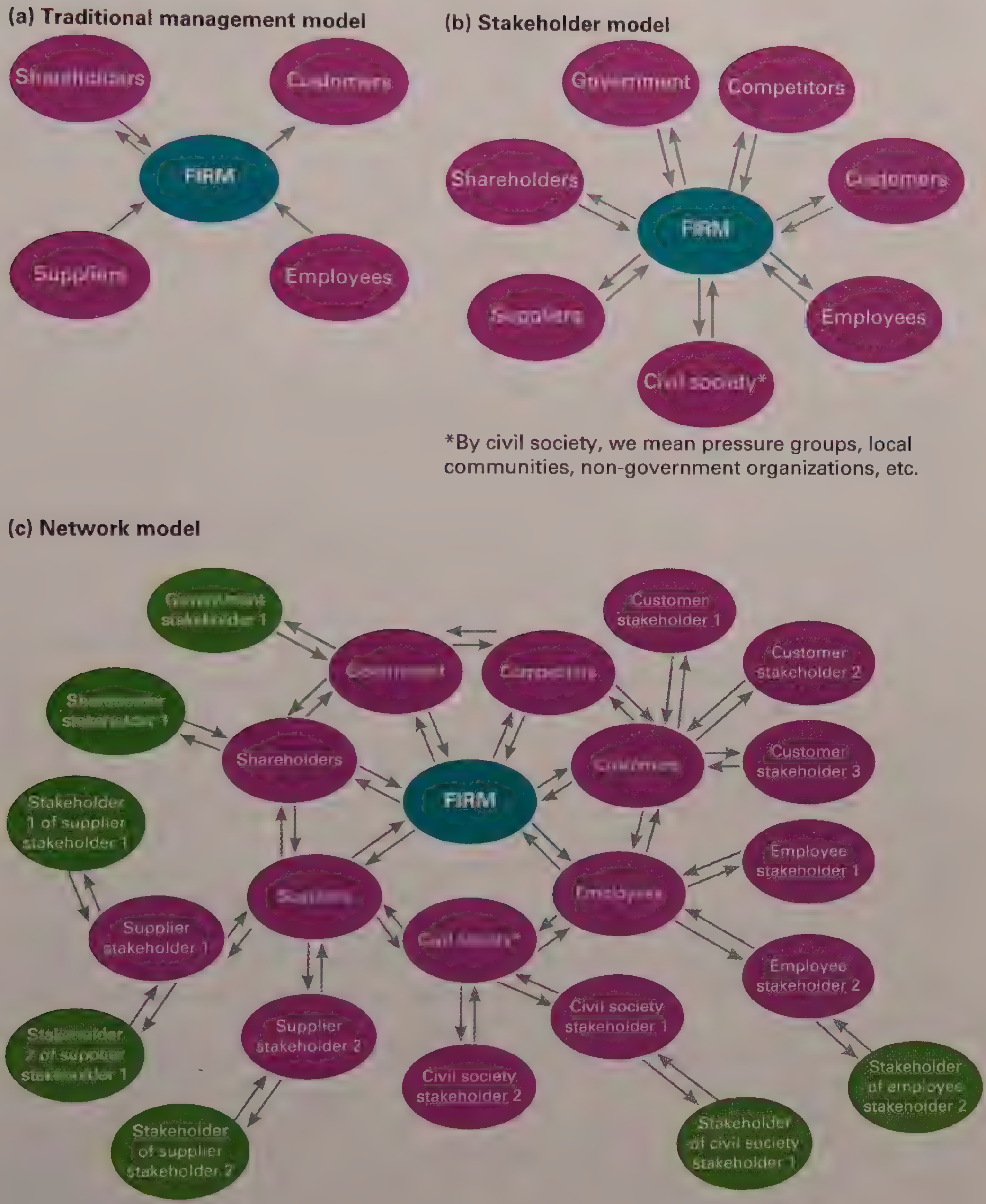
Figure 2.3(a) shows the traditional model of managerial capitalism, where the company is seen as only related to four groups. Suppliers, employees, and shareholders provide the basic resources for the corporation, which then uses these to provide products for consumers. The shareholders are the 'owners' of the firm and consequently they are the dominant group whose interests should take precedence.

In **Figure 2.3(b)**, we find the stakeholder view of the firm (Freeman 1984), where the shareholders are one group among several others. The company has obligations not only to one group, but also to a whole variety of other constituencies that are affected by its activities. The corporation is thus situated at the centre of a series of interdependent two-way relationships. This model forms the basis of our understanding of CSR.

Table 2.4 Some early definitions of stakeholders

Author	Definition of stakeholders
Stanford memo 1963 (cited in Freeman 1984)	'those groups without whose support the organization would cease to exist'
Rhenman (1964, English trans 1968)	'are depending on the firm in order to achieve their personal goals and on whom the firm is depending for its existence'
Freeman 1984	'can affect or is affected by the achievement of the organization's objectives'
Evan and Freeman 1993	'benefit from or are harmed by, and whose rights are violated or respected by, corporate actions'
Hill and Jones 1992	'constituents who have a legitimate claim on the firm ... established through the existence of an exchange relationship' who supply 'the firm with critical resources (contributions) and in exchange each expects its interests to be satisfied'
Clarkson 1995	'have, or claim, ownership, rights, or interests in a corporation and its activities'

Figure 2.3 Stakeholder theories of the firm



It is important to remember, though, that stakeholder groups also might have duties and obligations to their *own* set of stakeholders, and to the other stakeholders of the corporation. This gives rise to a *network model* of stakeholder theory (Rowley 1997), which is shown in Figure 2.3(c).

2

THINK THEORY

The network model of stakeholder theory suggests that firms have indirect relationships with a whole range of constituencies via their immediate stakeholders. To what extent should corporations also have to respect the rights of these indirect stakeholders? Think, for example, about the case of a company's supply chain and all the different tiers of supplier stakeholders that are involved. Does a company have responsibilities to suppliers at all tiers?

Visit the online resources for a suggested response.

WHY STAKEHOLDERS MATTER

If we go back to our discussion earlier in the chapter regarding arguments against social responsibility (Friedman 1970; Karnani 2010), a key objection of CSR has been that businesses should only be run in the interests of their owners. This correlates with the traditional stockholder model of the corporation, where managers' only obligation is to shareholders. Indeed, in legal terms, we have already seen that in most developed nations, managers have a special *fiduciary relationship* with shareholders to act in their interests. Stakeholder theory therefore has to provide a compelling reason why other groups also have a legitimate claim on the corporation.

Freeman (1984) himself gives two main arguments. First, on a merely descriptive level, if one examines the relationship between the firm and the various groups to which it is related by all sorts of contracts, it is simply not true to say that the only group with a legitimate interest in the corporation is shareholders. From a *legal perspective*, there are far more groups apart from shareholders that appear to hold a legitimate 'stake' in the corporation, such as consumers, employees, or suppliers, since their interests are already protected in some way. There are not only legally binding contracts to such stakeholders, but also an increasingly dense network of laws and regulations enforced by society, which make it simply a matter of fact that a large spectrum of different stakeholders have certain rights and claims on the corporation. For example, EU social contract legislation protects certain employee rights in relation to working conditions and pay, suggesting that, from an ethical point of view, it has already been agreed that corporations have certain obligations towards employees. Of course, among this broader set of obligations and rights, there are also obligations towards investors, but from a legal perspective this does not remove the obligation that the corporation has to other stakeholders.

A second group of arguments comes from an *economic perspective*. An important aspect here is the *agency problem*: one of the key arguments for the traditional model is that shareholders are seen as the owners of the corporation, and consequently managers have their dominant obligation to them. This view, however, only reflects the reality of shareholders' interests in a very limited number of cases (Stout 2012). The majority of shareholders do not invest in shares predominantly to 'own' a company (or parts of it), nor do they necessarily seek for the firm to maximize its long-term profitability. In the first place, shareholders often buy shares for speculative reasons, and it is the development of the share price that is their predominant interest—and not 'ownership' in a physical corporation. In his trenchant critique of shareholder dominance, the late management guru Sumantra Ghoshal (2005: 80) therefore argued that 'most shareholders can sell their stocks far more easily than most employees can find another job'. Hence, it is not evident why the highly speculative and mostly short-term interests of shareowners should preside over the often long-term interests of other groups such as customers, employees, or suppliers. The controversy around stakeholder versus shareholder dominance is ongoing and flared up publicly again in the financial crisis of the late 2000s. Among the most noted voices was that of former General Electric CEO Jack Welch—a long-standing poster child of shareholder value advocates—telling the *Financial Times* that shareholder value maximization as a strategy 'is a dumb idea' and that 'your main constituencies are your employees, your customers, and your products' (Guerrera 2009).

A NEW ROLE FOR MANAGEMENT

According to Freeman (1984), this broader view of responsibility towards multiple stakeholders assigns a new role to management. Rather than being simply agents of shareholders, management has to take into account the rights and interests of all legitimate stakeholders, including those who do not have a 'voice' to speak for themselves, such as the environment. While they still have a fiduciary responsibility to look after shareholders' interests, managers must integrate this with the interests of other stakeholders for the long-term survival of the corporation, rather than maximizing the interests of just one group at a time. We shall look at some of the ways in which managers can achieve this in Chapter 5, but clearly the task of balancing different stakeholder expectations is a major challenge. A company that continually wins awards for its inspiring approach to sustainability management is Unilever, one of the world's largest consumer goods companies, producing brands such as Dove and Lipton. Under a decade of leadership from CEO Paul Polman, the award-winning Unilever Sustainable Living Plan (USLP) has set stretching targets around the UN Sustainable Development Goals (SDGs), particularly focusing on improving health and well-being, reducing environmental impact, and enhancing livelihoods.

Furthermore, since companies are obliged to respect the rights of all stakeholders, this could suggest a further obligation to allow stakeholders to take part in managerial decisions that substantially affect their welfare and their rights. In this sense, there is a case for suggesting some model of *stakeholder democracy* that gives stakeholders an opportunity to influence and control corporate decisions (see Matten and Crane 2005). This also includes the idea of a model or a legally binding code of *corporate governance*, which codifies and regulates the various rights of the stakeholder groups. This, as we shall now see, appears to be more developed in other parts of the world than it is in the US, where stakeholder theory was popularized.

THINK THEORY

Explain how Unilever's vision for sustainability involves a 'contemporary' approach to CSR. Why does social responsibility make good business sense for this company?

Visit the online resources for a suggested response.

2

STAKEHOLDER THINKING IN AN INTERNATIONAL CONTEXT

Stakeholder theory is a relatively simple and pragmatic approach to management. Therefore, in the second part of the book we will have a detailed look at major stakeholders of the company and provide an in-depth analysis of the company's obligations and managerial approaches towards these different stakeholders. Nevertheless, it is important at this stage to consider the international variations in stakeholder thinking, as these have a significant impact on the way that stakeholder theory is engaged with in different contexts.

As we indicated above, the shareholder-dominated model of managerial capitalism has never been as strongly developed in continental Europe or Asia as it has in the Anglo-American tradition. Therefore, a general 'shift' towards other stakeholders has not been seen as so much of a necessity in these other parts of the world. Furthermore, with state influence on corporations—or even direct ownership—still playing a considerable role in countries such as France, Germany, or China, one of the major 'shareholders', government, automatically represents a large variety of 'stakeholders'—at least in principle.

The implications of this are that the rights of groups other than the direct contractual partners of the firm have traditionally been fairly well respected anyway in these countries. This typically applies to European countries such as France, Germany, or Sweden, but also to many Asian economies, in particular Japan. It also applies to many economies in transition from communism, where large state-owned industrial entities typically had a strong commitment to all sorts of groups other than their owners—a pattern that still survives to some extent despite the recent phase of privatization (Edwards and Lawrence 2000; Crotty 2016).

In a certain sense then, one could argue that although the *terminology* of stakeholder theory may often be relatively new outside the US, the general principles have actually been *practised*

Table 2.5 Stakeholder thinking in international contexts

Germany	Japan	Scandinavia
The vision of stakeholder democracy reads as something of a blueprint for the German model of industrial relations: at least one-third of the members on the supervisory board of large public shareholder-owned corporations have to be representatives of the employees—and in some industries they even have up to 50% of the votes. Furthermore, there is a very dense 'corporate law' of governance that codifies far-reaching rights of co-determination within the company. Although one might argue that this is only focusing on one stakeholder group, namely employees, this example is representative of a broader orientation of corporations towards stakeholders in many European countries.	We see a specific form of conglomerate business organization (Carney 2008) in Japan, China, India, Korea, and Taiwan to a greater or lesser extent. These conglomerates are networks of banks, manufacturing companies, suppliers, and service providers (e.g. *keiretsu* in Japan, *chaebol* in Korea), which reflects a view of the firm where suppliers, creditors, and customers represent the most important stakeholders. In Japan and Korea, this wider focus on who could be important stakeholders has also included employees, since many companies traditionally offered lifetime employment so that 'salary men' worked for just one company throughout their entire life.	Scandinavia has significantly influenced the emergence of stakeholder thinking, and in contrast to other regions, the language of stakeholder management has long been incorporated into management teaching and practice. This is reflected in the stronger attention to co-operation in Scandinavian business, through participative management, employee involvement, and consensus building. This has been labelled a 'Scandinavian cooperative advantage', whereby companies such as H&M, IKEA, and Novo Nordisk engage stakeholders through a 'jointness of interests, cooperative strategic posture, and rejection of a narrowly economic view of the firm' (Strand and Freeman 2015).

in many countries for some time. Let us consider the three examples in **Table 2.5**. While some of the entrenched patterns of stakeholder orientation presented here have waned in the process of globalization, this absence of shareholder dominance is still notable. We will look at further aspects of stakeholder management, inclusion, and participation in the second part of the book, when we move on to focusing on each stakeholder group individually. However, at this stage, it is important to recognize that there are not only different ways in which a stakeholder approach can be implemented, but there are actually quite different *forms* of the theory itself.

DIFFERENT FORMS OF STAKEHOLDER THEORY

The popularity of stakeholder theory in the business ethics literature has meant that quite different forms of the theory have emerged in relation to the more complex, networked nature of stakeholder relationships presented in **Figure 2.3**, earlier in the chapter. It is thus important to be able to distinguish between them.[6] Donaldson and Lee Preston (1995) provide a convincing argument that there are, in fact, three forms of stakeholder theory:

- **Normative stakeholder theory**—this is theory that attempts to provide a reason why corporations *should* take into account stakeholder interests.
- **Descriptive stakeholder theory**—this is theory that attempts to ascertain whether (and how) corporations *actually do* take into account stakeholder interests.
- **Instrumental stakeholder theory**—this is theory that attempts to answer the question of whether it is *beneficial for the corporation* to take into account stakeholder interests.

In the preceding discussion, we have mainly used the first two types of argument to present the case for a stakeholder approach—that managers should and indeed do (at least to some extent) take into consideration interests beyond narrow shareholder concerns. However, we will develop a deeper normative basis for our arguments regarding specific stakeholder groups in Part B of the book. The instrumental argument—that considering the interests of stakeholders is in the best interests of the corporation—is largely akin to the argument for enlightened self-interest that we presented earlier in this chapter (see **Why do corporations have social responsibilities?**), and will be explored in more detail in Chapter 5.

By now it should be fairly evident that Friedman's (1970) first and second arguments against the social role and responsibilities of the corporation face considerable dissent from those advocating a CSR and/or a stakeholder position. However, there is still one final aspect of his argument that we have not yet addressed, namely whether corporate managers should be involved in decisions about public welfare.

CORPORATE CITIZENSHIP—THE FIRM AS A POLITICAL ACTOR

In Friedman's (1984) view, corporations should not undertake social policies and programmes because this is the task of government. Governments are elected by the public to pursue social goals whereas corporate managers are acting on behalf of shareholders, so their accountability is primarily to shareholders, not to the public. Friedman therefore proposes a strict political division of labour in society—corporations to pursue economic goals, governments to pursue social goals. Although it could potentially be argued that Friedman's argument was defensible when his article was published, more recently the question of the wider responsibilities of business has become far more vexed. The main challenge to Friedman's view comes from the fact that corporations today have taken on a role in society that overlaps and interferes quite substantially with that of governments. Let us consider three main areas where this has happened:

- **Governments retreating from catering to social needs.** Throughout the 20th century, many societies saw the provision of water, electricity, education, healthcare, basic transportation, public safety, or telecommunication as part of what governments provided to their citizens. In many countries, however, these services have been privatized and are now in the hands of companies. It is very clear that companies that take responsibility for people's health, for heating their homes, or keeping them safe have a somewhat more complex social responsibility. In fact, companies in these new areas face many of the social expectations hitherto directed at governments and the political sphere in general.
- **Governments unable or unwilling to address social needs.** In some contexts, especially in less-developed countries, business often faces governments that lack the resources to cater effectively for basic social needs. Mining companies that build roads, housing, schools, and hospitals for the communities where they operate often do this for the 'business case' reasons for CSR, discussed earlier in the chapter. As a result, corporations often 'play government' in these contexts and face social expectations that in Western democracies would be placed on the government.
- **Governments can only address social problems within their reach.** When we discussed globalization in Chapter 1, we encountered some of the limits of governments. Areas such as the global financial markets, the climate of the planet, and the internet are somewhat unwieldy and no single government is able to influence and govern them. Resultantly, these are areas that are run by businesses; hence the expectation towards business to address volatile financial markets, advancing climate change, and concerns surrounding internet privacy as a natural consequence of their global reach.

All three basic developments have led to a situation where businesses now face many social expectations that are similar to those usually reserved for political authorities, raising a host of ethical problems for the entities themselves and those who work in or with them. **Ethical Dilemma 2**, for example, describes a situation where business has become involved in the funding of universities (previously a purely governmental function in most countries), and the ethical challenges this can raise for university employees such as professors. It is from this perspective that the business ethics literature has increasingly started to reconsider the political division of labour between business and government (Mäkinen and Kourula 2012). A key concept addressing this shift is corporate citizenship.

THINK THEORY

Think about the concept of globalization that was discussed in Chapter 1, and our characterization of globalization as 'the ongoing integration of political, social, and economic interactions at the transnational level'. How might this influence the failing of government and increasing power of corporations?

Visit the online resources for a suggested response.

ETHICAL DILEMMA 2 When good results are bad results

Professor Ballistico is scratching his head. Looking at the results of last month's series of experiments has brought on a distinct feeling of unease. He has been sitting in his office for hours now trying to analyse the spreadsheets from every possible angle—but without success. He even had an argument with his research assistant, accusing her of having prepared the results incorrectly—but she had been right all along.

Not that Ballistico is unhappy about the project itself. It is actually quite a successful piece of research looking at the various side effects of food additives in frozen food. The two-year project has already produced some very good publications; he has even been invited several times to give interviews on television about the results. However, the latest round of results has got him wondering.

The reason for Ballistico's unease is that, according to the results of the latest tests, two substances involved in the study, called 'Longlife' and 'Rotnever', appear to significantly increase the risk of human allergies for long-time consumers of the additives. And however he interprets the results, his assistant really seems to have delivered solid work on the data analysis.

Normally, such surprising results would be good news. Solid results of this kind would make for sensational presentations at the next conference of the World Food Scientist Federation. On top of that, 'Longlife' and 'Rotnever' are very common additives in the products of the large food multinational Foodcorp, which is the market leader in frozen food in his country. His results could really make big headlines.

There is one problem, though: Professor Ballistico is director of the Foodcorp Centre for Food Science at BigCity University. Three years ago, Foodcorp donated €2.3 million to BigCity University in order to set up the research centre and to fund its activities. The company felt that as 'a good corporate citizen we should give something back to society by funding academic research for the benefit of future generations'. It also signalled that it saw this as a continuous engagement over time … and Ballistico is only too aware that the decision about the next €2 million funding will be imminent three months from now.

Professor Ballistico has a major dilemma: if he publishes his results, Foodcorp might get into serious trouble. He also knows that this will be quite embarrassing at the next meeting with his sponsor, and it will most certainly influence the company's decision to fund the centre further. And he hardly dares to think of his next meeting with the president of the university, who is always so proud of BigCity having such excellent ties to companies and scoring highest in the country in terms of its ability to secure external funding. Should he therefore just tell Foodcorp privately about his results so that it can take appropriate action to deal with Rotnever and Longlife, or should he go public with his findings?

QUESTIONS

1. What are the main ethical issues for Professor Ballistico here?
2. What options are open to him? How would you assess these options?
3. How should Ballistico proceed, and what can he realistically do to prevent similar problems arising in the future?
4. What are the wider ethical concerns regarding corporate involvement in funding universities and other public institutions?
5. In light of this example, give a critical assessment of the benefits and drawbacks of corporations stepping into roles often played by governments, such as the funding of higher education.

Visit the online resources for a suggested response.

THE CONCEPT OF CORPORATE CITIZENSHIP

2

Towards the middle of the 1990s, the term 'corporate citizenship' (CC) emerged as a new way of addressing the social role of the corporation. Initially favoured primarily by practitioners (Altman and Vidaver-Cohen 2000), CC has also increasingly been introduced into the academic literature. Although, again, the shift in terminology largely started in the US, numerous companies in Europe, Asia, and elsewhere have since committed themselves to CC (see **Table 2.6**), and various consultancies and research centres based around the concept of CC have been founded across the globe.

Table 2.6 Commitments to corporate citizenship

Company	Industry and Country of Origin	Corporate citizenship statement (*emphasis added*)	Source
BMW	Automobiles, Germany	***Corporate citizenship*** forms an integral part of how the BMW Group defines itself as a company. With this in mind, we address current challenges in society and focus on those areas in which we can apply our core expertise to achieve specific and measureable improvements. We believe that our corporate citizenship activities contribute towards mastering challenges in society, while at the same time bringing economic benefit to the company.	https://www.bmwgroup.com/en/responsibility/corporate-citizenship.html, 2017
Citibank	Financial Services, US	At Citi, we intentionally use the word ***'Citizenship'*** to describe these efforts because the word reflects a sense of belonging to communities that extend well beyond our firm. It also reflects a longstanding recognition that our success is inextricably linked to the positive outcomes and progress we can help enable for others. And it's an acknowledgement that we take our responsibility to use our many strengths and resources to contribute to the greater public good very seriously.	http://www.citigroup.com/citi/about/citizenship, 2017
Distell	Brewing and beverage, South Africa	We are committed to being a caring, socially and environmentally responsible ***corporate citizen*** that conducts business with fairness and integrity. This includes contributing to safe and responsible alcohol consumption, driving socio-economic transformation and championing ethical conduct.	https://www.distell.co.za/corporate-responsibility, 2017
Panasonic	Electronics, Japan	Panasonic is promoting ***corporate citizenship*** activities (social contribution activities) and working to solve social issues around the world. Panasonic, as a global corporate citizen, aims to be a benefit to the environment by creating more energy than it uses.	https://www.panasonic.com/global/corporate/sustainability.html, 2017

However, as the literature on CC is relatively new, there seems to be quite a variety of usages of the terminology (Matten and Crane 2005; Crane, Matten, and Moon 2008). In a 'limited view' of CC, many refer to philanthropy as the main activity of a virtuous CC that shares its wealth with its 'fellow citizens'. Others refer to CC in a way that mainly is synonymous to CSR, equating good neighbourly behaviour with a responsible role of business in society. In the context of the political nature of the corporations as outlined so far in this section, however, we prefer to use the 'extended view' of CC proposed by Matten and Crane (2005), which deliberately embraces the political elements of business ethics (also sometimes referred to as 'political CSR', see Scherer and Palazzo 2011). The extended view of CC takes as its starting point the notion of 'citizenship', and the dominant idea in most industrialized societies that citizenship is defined as a set of individual rights (Faulks 2000: 55–82). Following the still widely accepted categorization by T.H. Marshall (1965), liberal citizenship comprises three different rights:

- **Social rights**—these provide the individual with the *freedom to* participate in society, such as the right to education, healthcare, or various aspects of welfare. These are sometimes called 'positive' rights since they are entitlements towards third parties.
- **Civil rights**—these provide *freedom from* abuses and interference by third parties (most notably the government); among the most important are the rights to own property, to engage in 'free' markets, or to exercise freedom of speech. These are sometimes called 'negative' rights since they protect the individual against the interference of stronger powers.
- **Political rights**—these include the right to vote or the right to hold office and, generally speaking, enable the individual to participate in the process of governance beyond the sphere of his or her own privacy.

The key actor for governing these rights for citizens is the government. Thus, at first glance, it is somewhat hard to make any sense of something like 'corporate citizenship' since citizenship is about relations between individuals and governments; although, as we saw earlier, corporations are regarded as 'artificial persons' and so do enjoy some of the rights and obligations of other citizens (rights to own property, for example). However, corporations enter the picture not because they have an entitlement to certain rights as a 'real' citizen would, but as powerful public actors that—for better or for worse—can have a significant impact on those 'real' citizens' rights. That is, the failure of governments to fulfil some of their traditional functions, coupled with the rise in corporate power, has meant that corporations have increasingly taken on a role in society that is similar to that of traditional political actors. Hence, corporations enter the arena of citizenship at the point where traditional governmental actors fail to be the only 'counterpart' of citizenship. Quite simply, corporations can be said to partly take over those functions with regard to the protection, facilitation, and enabling of citizens' rights. Let us consider some examples:

- **Social rights.** Many companies have pursued initiatives formerly within the province of the welfare state: feeding homeless people, helping head teachers in managing school budgets, enhancing the employability of the unemployed, or improving deprived neighbourhoods. For example, the British retailer Marks and Spencer has for more than a decade operated its 'Marks and Start' programme to help people facing barriers to employability (such as single parents, people with disabilities, and the homeless) to gain work experience and skills that improve their employment prospects.[7] Similarly, in developing countries where governments simply cannot (or do not want to) afford a welfare state, the task of improving working conditions in sweatshops, ensuring employees earn a living wage, providing schools, medical centres, and roads, or even providing financial support for the schooling of child labourers are all activities in which corporations such as Shell, Nike, Levi Strauss, and others have engaged under the label of CC.

2

- **Civil rights.** Governmental failure again becomes particularly visible in developing or transforming countries in the arena of civil rights. Corporations can sometimes play a crucial role, either in discouraging or encouraging governments to live up to their responsibility in this arena of citizenship, or directly protecting or infringing people's civil rights. Consider Facebook, which faced several court cases in the 2010s because of alleged infringements of the rights to privacy of its users,[8] and who became the subject of suspicion following its role in promoting political messages during the 2016 US presidential campaign.[9] On the other hand, companies such as Google have sometimes held themselves up as guardians of people's rights to free speech in the face of government restrictions. As a global space not monitored by any single government, the internet is therefore a good example of one of those areas where corporations are exposed to dealing with core civil rights of individuals.
- **Political rights.** Voter apathy in national elections has been widely identified in many industrialized countries, yet there appears to be a growing willingness on the part of individuals to participate in political action *aimed at corporations rather than at governments* (Hertz 2001a). Whether through single-issue campaigns, anti-corporate protests, consumer boycotts, or other forms of sub-political action, individual citizens have increasingly sought to effect political change by leveraging the power, and to some extent vulnerability, of corporations (see **Chapter 8**). Returning to **Case 1** on McEthics in Chapter 1, when anti-obesity campaigners have sought to draw attention to the social problems of poor health and nutrition among young people, they have achieved international coverage for their efforts not by tackling national governments, but by attacking the McDonald's corporation.

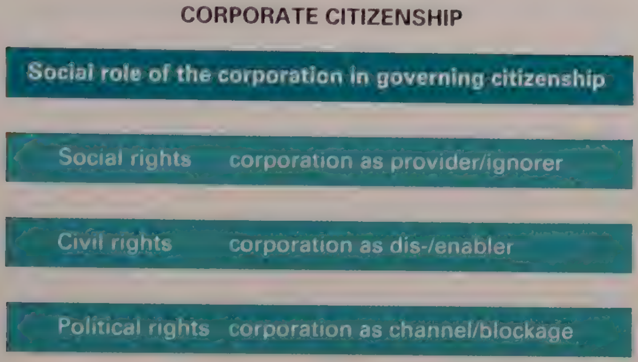
Hence, given this emerging role for corporations in the administration of civil, social, and political rights, the extended view suggests that **corporate citizenship** is essentially about how corporations govern the rights of individual citizens.

Corporate citizenship The corporate role in governing citizenship rights for individuals.

These rights are governed by the corporation in different ways. With regard to *social* rights, the corporation basically either supplies or does not supply individuals with social services and hence largely takes on either a providing or an ignoring role. In the case of *civil* rights, corporations either capacitate or constrain citizens' civil rights, and thus can be viewed as assuming more of an enabling or a disabling role. Finally, in the realm of *political* rights, the corporation is essentially an additional conduit for the exercise of individuals' political rights—hence, the corporation primarily assumes a channelling or a blocking role. This extended conceptualization of CC is shown in **Figure 2.4**.

It is evident that CC may be the result either of a voluntary, self-interest-driven corporate initiative, or of a compulsory, public pressure-driven corporate reaction—either way it places

Figure 2.4 An extended view of corporate citizenship



corporations squarely in a political role rather than just an economic one. Most firms actually claim to not want to take on such a political role in society, yet it seems that increasingly they do, either because of pressure from activists or sometimes simply out of necessity. If an apparel company needs to make sure the children of its staff working in a poor African community get an education, it may need to build its own schooling centre because the local authorities may not have the resources to do so. The point is that we do not need to know the motivation to label something an act of 'extended' CC. This is because this view of CC is essentially a *descriptive* conceptualization of what does happen, rather than a *normative* conceptualization of what should happen. **Ethics in Action 2.2** provides the opportunity to examine this perspective in the context of collaborative corporate initiatives in developing countries.

IMPLICATIONS OF CC: CORPORATE ACCOUNTABILITY AND TRANSPARENCY

The debate on such a proposed political role of the firm has been quite rich and controversial (Scherer and Palazzo 2007, 2008b, 2011; Crane, Matten, and Moon 2008; Willke and Willke 2008; Néron 2010). The central problem behind such a role is clearly visible, though: does political involvement by companies represent a risk to democracy? Since many important decisions appear to be no longer taken by governments (and hence also no longer indirectly by individual voters) but by corporations (who are not subject to a democratic vote), there is considerable unease with the implications this has for democratic accountability.

The question of **corporate accountability** is, therefore, integral to assessing the pros and cons of any shift to extended CC. The central points here are the questions of *who controls corporations* and *to whom are corporations accountable*. There are those like Friedman (1984), as discussed earlier, who see it as a given that corporate managers are only accountable to their shareholders, provided they comply with the laws of the countries in which they do business. Governments are accountable to the public and therefore it is they who are the 'proper guardians of the public interest ... accountable to all citizens' (*The Economist* 2005).[10] However, there are also good arguments for the view that, since corporations now shape and influence so much of public and private life in modern societies, in effect they are already *de facto* political actors,

2

Ethics in Action 2.2 Blurring public and private boundaries in India's garment hub

Vivek Soundararajan and Sarah Glozer

Stretching far beyond philanthropic giving, the notion of corporate citizenship brings to life how corporations might 'plug the gaps' between citizen need and government provision. It is often within developing country contexts that we see more creative forms of corporate citizenship being realized, as countries struggle to meet increasing demand for basic social provisions, such as clean water, healthcare, or electricity and travel infrastructures. Corporations who choose to operate in these areas often find that the most efficient way of dealing with such social welfare gaps is to take matters into their own hands; to effectively adopt the role of the public sector and become a good corporate 'citizen'. Because of the increased complexities and resource requirements to effectively perform such public roles, we are seeing businesses coming together to form CSR coalitions. This phenomenon is nowhere more pronounced than in the 'garment hub of India' in Tiruppur, Tamil Nadu.

The Tiruppur Exporters Association (TEA)

Tiruppur serves nearly 2% of the global knitwear market and contributes to nearly 70% of India's knitwear exports. Exporters quickly realized that acting alone was not enough to tackle the complex and vast social demands of this potentially booming export hub and so in 1990, a coalition of garment exporters came together to form Tiruppur Exporters Association (TEA), a business association representing nearly 1000 knitwear exporters who have production facilities in the locality. TEA has since built links with key stakeholders including local/state governments, public utilities companies, local non-governmental organizations (NGOs), other garment and knitwear associations, as well as private corporations and international academic institutions, emphasizing the benefits of collaboration.

TEA was established with a vision to promote social benefit by lifting the quality of life in Tiruppur, as well as economic benefit through instilling a robust infrastructure to support the export market. At the time TEA was established, the total value of exports from Tiruppur was around Indian National Rupees (INR) 390 Crores (£45 million Great British Pounds [GBP]). Today exports are valued at around INR 30,000 Crores (£3.5 billion GBP). TEA has fixed a target of INR 100,000 Crores (£11.6 billion GBP) for 2020 and is taking the necessary steps to reach the target.

TEA as a catalyst for responsible industrial growth

In Tiruppur, there are around 10,000 units employing nearly 500,000 workers and the industry has been a conduit for the development of the region as a whole. It is only because of the knitwear industry that Tiruppur has grown from being a small village to a city and now to a district. TEA has been an important player in this local development; a global 'citizen' who has supported the growth of this area by:

- Cultivating nearly 200 garment manufacture sites as part of a sprawling industrial complex with access to electricity, running water, sewerage, telecommunications, and security;
- Operating a logistics venture that provides end-to-end supply chain services for garment distributors; instilling global manufacture quality procedures across the cluster;
- Holding bi-annual knitwear fairs to promote Tiruppur; and facilitating knowledge sharing through the establishment of a knitwear fashion institute that offers training on evolving technical needs of designing, manufacturing, marketing, and administrating the knitwear industry and export business.

The economic benefit of TEA is unquestionable, but TEA's work does not stop here. The coalition has been responsible for building bridges, roads, and even a local crematorium to support local infrastructure. Perhaps most marked is TEA's contribution to water management issues. The booming industry and population growth had put pressure on water resources in the region. Realizing the negative environmental impacts of ground water depletion, in collaboration with local government, TEA developed the New Tiruppur Area Development Corporation Limited (NTADCL), building 55 kilometres of infrastructure to bring water from Cauvery River to Tiruppur for industrial and domestic use. In addition to serving Tiruppur's needs, this project also serves the water needs of nearly 30 villages surrounding Tiruppur. NTADCL is also in the process of setting up an underground sewerage system for Tiruppur.

2

What does the furture hold for TEA and Tiruppur?

While the successes of TEA are easy to see, progress in the region has not come easily. Increase in competition in the garment sector from Bangladesh and other developing countries has negatively impacted Tiruppur's growth, particularly given low cost pressures on clothing supply chains. As a result of implementing measures to improve social and environmental performance of factories in Tiruppur, the cost of manufacturing has risen. While TEA is in constant negotiation with the Government of India to find solutions such as tax reduction and increases in duty drawback, working conditions remain a source of concern in the region. The Tiruppur cluster and its supply chain frequently appear in reports about poor working conditions and modern slavery, especially poor treatment of workers from rural villages and North India. Government regulations, private social audits, and empowerment initiatives have brought some degree of improvements in large factories but, given that more than 80% of the Tiruppur cluster is made up of micro, small, and medium firms, universal methods still have limited impact. Additionally, Tiruppur is currently facing a heavy workforce and skills gap. TEA is currently experimenting with various initiatives in collaboration with grassroots, educational institutions, and government agencies to develop recruitment and development programmes.

The Tiruppur cluster is far from perfect, but its rapid growth has seen the region become a significant player in the global knitwear market. TEA, an initiative which is built on principles of CSR and corporate citizenship, has undoubtedly played an important role in enhancing the capabilities of this booming export industry. As a new generation gradually takes over operations, and activities expand in the hypercompetitive setting, the future for Tiruppur looks bright.

QUESTION

In what ways are the organizations involved in the Tiruppur Exporters Association (TEA) implementing the 'extended view of corporate citizenship'? What are the new responsibilities arising from this role and what are the limits of this approach?

Visit the online resources for web links to useful sources of further information.

so they *have* to become more accountable to society. This issue is nowhere more pronounced than in the media industry, where publishers often have to balance the needs of fiduciary stakeholders with the greater public good. This challenge is taken up below in **Ethics on Screen 2**, which discusses the Hollywood blockbuster *The Post*, raising a thought-provoking case of corporate accountability.

Corporate accountability A concept that refers to whether a corporation is answerable in some way for the consequences of its actions.

2

ETHICS ON SCREEN 2 *The Post*

© Entertainment Pictures/Alamy Stock Photo

'A cover-up that spanned four U.S. Presidents pushed the country's first female newspaper publisher and a hard-driving editor to join an unprecedented battle between journalist and government.'

At a time when the spotlight is being cast on media outlets and their roles as watchdogs in a world of 'fake news', *The Post* presents a topical and factual drama. Set in 1971, this critically acclaimed Steven Spielberg film focuses upon *The Washington Post* and its quest to publish damning and classified evidence exposing US government lies about the Vietnam war—the Pentagon Papers. This is a story about democracy over darkness, truth over falsity, and it's a timely tale that cuts right to the heart of modern-day politics and media affairs with President Trump, the US' 45th President, recently heralding the media as 'damned dishonest' and the 'enemy of the people.'

Released in the UK in 2018, the American political thriller takes us back to a time when the media was the voice of authority. The film starts out on the battlefields of Vietnam where Daniel Ellsberg (Matthew Rhys), who is working for the US State Department, begins to question American involvement in the war. It is when Ellsberg participates in the development of the Pentagon Papers, a highly explosive set of documents that set to keep secrets regarding the winnability of the war away from the American people, that he decides that the revelations should be made public. He copies the documents, and delivers them straight into the hands of the *New York Times*. Yet, it is *The Washington Post* that is the focus of this film, particularly Katharine Graham (Meryl Streep) as the first female publisher of a major American newspaper and editor Ben Bradlee (Tom Hanks). In a desperate battle to win the next big story, Graham and Bradlee uncover one of the biggest cover-ups in US political history when an anonymous whistleblower leaves a shoebox containing some of Ellsberg's said copies of the classified Pentagon Papers at the door of *The Washington Post*. It turns out that, due to an injunction, the *New York Times* was blocked from publishing the revelations. The film then covers the race to find Ellsberg and the full Pentagon Papers and the *Post*'s dilemma to publish (or hold back) the truth, a moment that is often regarded as significant for transparency (a key theme we have looked at in this chapter).

This is a film that defends the institution of journalism and decency in the wake of courtroom injunctions, legal battles, and boardroom blows. It is a timely reminder of the importance of investigative journalism and social responsibility of media outlets in the wake of the Panama (2016) and Paradise Papers (2017), which uncovered tax avoidance of the rich and famous in the global press. It is also a film that presents an ethical conundrum in the corporate boardroom: should *The Washington Post* act in its own (egoist) self-interest and not publish the leaked documents at a time when the paper is seeking an IPO on the New York stock exchange, or think about the (utilitarian) greater good for society in knowing the truth about the US governmental cover-up? These themes anticipate our discussion of ethical theory in Chapter 3.

Beyond the corporate level, we learn as much about the heated newsroom culture in this fast-paced drama as we do the individual characters of Graham and Bradlee as they embody control, competition, and companionship. Heading up the business, Graham (Streep) experiences sexist condescension at the hands of the almost all-male industry, as she fights for freedom of the press and public interest. The role of the whistleblower, Ellsberg, a brave individual who takes matters into his own hands, risking over 100 years behind bars to serve the public good, should also not be overlooked. In recent years we have seen whistleblowers such as Edward Snowden (who leaked classified information about the National Security Agency (NSA) in 2013) and Chelsea Manning (who disclosed classified and sensitive military and diplomatic documents in 2009) fight for democracy over power in the media, and deal with the personal ramifications of speaking out. Overall, this is an enticing historical thriller that raises rich questions regarding accountability, transparency, and disclosure in the context of media (business) and society.

SOURCES

Bradshaw, P. 2017. *The Post* review—Streep and Hanks scoop the honours in Spielberg's big-hearted story, 6 December.

Smith, D. 2017. Spielberg's *The Post* tells of Pentagon Papers and time when media was trusted, 27 November.

Visit the online resources for web links to useful sources of information related to this film.

One avenue for greater corporate accountability is the market itself. Hertz (2001a) and others suggest that, given the power of large corporations, there is more democratic power in an individual's choice as a consumer (for or against certain products) than in their choice at the ballot box. As Craig Smith (2014) contends, consumption choices are, to some extent, 'purchase votes' in the social control of corporations. However, as we shall discuss in more detail in Chapter 8 when we cover business relations with consumers, one should also recognize the limitations of the individual's power to affect corporate policy through purchase choices. There is little guarantee that consumers' social attitudes will be reflected in their consumer choices, or that such social choices will be even recognized, never mind acted on, by corporations. After all, not only do corporations benefit from a massive power imbalance compared with individual consumers, but consumers are also constrained in executing their voting rights by the choices offered by the market. Perhaps most importantly, consumers are just one of the multiple stakeholders that corporations might be expected to be accountable to.

This has led to further questions regarding how corporations can be made more accountable to the broad range of relevant stakeholders for their actions. One important stream of literature has examined the possibility for corporations to audit and report on their social, ethical, and environmental performance through new accounting procedures, such as environmental accounting and social reporting (Owen and O'Dwyer 2008). Another important stream of literature has looked at broader issues of communication with stakeholders, and development of stakeholder dialogue and stakeholder partnerships (e.g. Bendell 2000; Crane and Livesey 2003). We shall look at these developments in more detail later in the book, most notably in Chapters 5 and 10. However, the key issue here is that in order to enhance corporate accountability, corporate social performance should be made more visible to those with a stake in the corporation. The term usually applied to this is **corporate transparency**.

Corporate transparency The degree to which corporate decisions, policies, activities, and impacts are acknowledged and made visible to relevant stakeholders.

Although transparency can relate to any aspect of the corporation, demands for corporate transparency usually relate primarily to social as opposed to commercial concerns, since traditionally corporations have claimed that much of their data is commercially confidential. However, it is evident that many social issues cannot be easily separated from commercial decisions. For example, Nike long claimed that the identity and location of its suppliers could not be revealed because it was commercially sensitive information that competitors could exploit. However, concerns over working conditions in these factories led to demands for Nike to make the information public, which in 2005 it eventually agreed to do.

According to Schnackenberg and Tomlinson (2014), the quality of corporate transparency depends on three elements:

- **Disclosure**—whether relevant information is made available in a timely and accessible manner.
- **Clarity**—the degree to which information is understandable to relevant stakeholders.
- **Accuracy**—whether the disclosed information is correct and reliable.

Calls for increased transparency—i.e. enhanced disclosure, clarity, and accuracy in how companies communicate their social impacts—are all about being able to hold corporations accountable for their actions. Only if stakeholders know what companies are doing can they seek to influence them to change their behaviour, or make decisions about whether to continue to support them.

For example, most consumers believe that 'ingredient transparency' is an important factor in their purchase decisions across a range of product categories including food, household products, and beauty products.[11] Frequently, however, providing credible information is difficult for companies in the realm of social and political impacts, because they do not always know the facts themselves. Consider the case of mica, a mineral commonly used in cosmetics. The largest deposit is in the Indian state of Jharkhand, where the remote jungle landscape means that monitoring programmes are unable to determine whether child labour is used in its production. As a result, the UK cosmetics firm Lush announced in 2014 that it was committed to removing mica from its products because it could no longer guarantee transparency in its supply chain (Fearn and Nesbitt 2014).

While increased transparency is certainly no panacea for restoring public trust (see, for example, O'Neill 2002), the tenor of current demands for greater openness from corporations suggests that increased attention to issues of transparency might no longer be just an option for many corporations, particularly in today's interconnected landscape. Increasingly, corporate accountability and transparency are being presented as necessities, not only from a normative point of view, but also with regard to the practical aspects of effectively doing business and maintaining stakeholder trust (Schnackenberg and Tomlinson 2014).

ASSESSING CORPORATE CITIZENSHIP AS A FRAMEWORK FOR BUSINESS ETHICS

Having set out the concept of CC and explored some of its implications in terms of accountability and transparency, we need to consider whether the concept of CC really represents a useful new way of framing business ethics—or at least whether it offers us anything different or better compared with CSR, stakeholder theory, and the other concepts we have discussed in this chapter. CC does seem to add something significant that helps us frame business ethics in new ways:

- The extended view of CC helps us to see better the *political role* of the corporation and clarifies the demand for *corporate accountability* that is such a prominent feature of contemporary business ethics thinking.
- By providing us with a way of understanding business in relation to common rights of citizenship across cultures, CC in this sense also helps us to better understand some of the challenges presented by the context of *globalization*.
- These rights of citizenship, which include rights to equality, participation, and a safe and clean environment, also have strong links to the goal for business ethics of *sustainability*.
- Finally, although the notion of CSR has been widely adopted all over the world, the extended view of CC provides us with a more *critical* perspective on the social role of business.

Of course, one downside to the extended view of CC is that it is both new and not yet widely accepted within the mainstream discourse of business ethics. However, that is changing as it becomes increasingly apparent that the traditional concepts of CSR and stakeholder theory may not be adequate to deal with broader changes in the roles of business, government, and civil society.

SUMMARY

In this chapter we have discussed business ethics in relation to the social role of the corporation. We have outlined the nature of corporations and argued that confining corporations to their initial purpose of producing goods and services in a way that yields a maximal profit for the shareholders of the corporation is too limited. We subsequently analysed different perspectives on CSR, stakeholder theory, and CC, and assessed their relevance in an international context.

Our argument is that the shifts and changes in the global economy in recent years have brought to the surface the necessity for a new framing of business ethics. The extended perspective on CC—which ultimately sees the corporation as a political actor governing the citizenship of individual stakeholders—helps to bring some much-needed definitional clarity to the CC debate. Perhaps more importantly, though, it helps us to conceptualize the emerging role of corporations in the global economy, as well as to clarify the ethical expectations increasingly placed upon them.

2

STUDY QUESTIONS

1. What are the main implications of the *legal status* of corporations for notions of corporate social responsibility?
2. 'Only human beings have a moral responsibility for their actions'. Critically assess this proposition in the context of attempts to ascribe a moral responsibility to corporations.
3. What is enlightened self-interest? Compare and evaluate arguments for CSR based on enlightened self-interest with more explicitly moral arguments.
4. According to Archie Carroll, what are the four levels of CSR? How relevant is this model in a European, Asian, or African context?
5. Explain the difference between normative, descriptive, and instrumental versions of stakeholder theory. To what extent do stakeholders have intrinsic moral rights in relation to the management of the corporation?
6. Define the extended view of corporate citizenship. Give examples to illustrate the concept.

RESEARCH EXERCISE

Select one of the following companies:

(a) BMW (www.bmwgroup.com)

(b) Distell (https://www.distell.co.za)

(c) Panasonic (www.panasonic.com)

Investigate the company's website and set out the main aspects of its corporate citizenship programmes. Which aspects of its programmes might be said to be formerly governmental responsibilities? What are the benefits and drawbacks of the corporation taking over these responsibilities? How do these responsibilities support the sustainable development goals presented in Chapter 1?

KEY READINGS

1. **Carroll, A.B. 2008. A history of corporate social responsibility: concepts and practices. In A. Crane, A. McWilliams, D. Matten, J. Moon, and D. Siegel (eds.), *The Oxford handbook of corporate social responsibility*: 19–46. Oxford: Oxford University Press.**
   This provides a broad overview of the development of CSR theory and practice (albeit from a predominantly US perspective) from one of the field's most well-known scholars.
2. **Matten, D. and Crane, A. 2005. Corporate citizenship: towards an extended theoretical conceptualization. *Academy of Management Review*, 30(1): 166–79.**
   This article sets out the main arguments presented in the last part of this chapter in more detail and is useful if you want to follow up the citizenship perspective more fully.

Visit the online resources for further key reading suggestions.

CASE 2 American Apparel: a new fashion for CSR?

This historical case examines American Apparel's unique approach to social responsibility in the apparel industry. The case discusses the firm's 'sweatshop-free', made-in-the-USA philosophy as applied to clothing design and manufacturing, and also explores the company's unusual commitment to political campaigning on immigration and sexual orientation causes. It also reflects on recent developments which led to the firm filing for bankruptcy in 2015. You have the opportunity to evaluate the potential risks and rewards of American Apparel's social responsibility strategy and to consider how such practices might have helped or hindered the company's financial performance.

Alongside Zara, Gap, and H&M, American Apparel used to be a fixture on most high streets across much of the world. In terms of CSR, however, American Apparel was unlike virtually all of its counterparts in the apparel industry. While almost all global clothing companies outsource the production of their products to suppliers in emerging economies, American Apparel had steadfastly stuck to a made-in-America philosophy, promising that its clothes are resolutely 'sweatshop free'. Many wondered about the business logic of such an approach when American Apparel's competitors could enjoy such drastically lower labour costs. Was this a case of 'ethics pays', or was American Apparel ultimately doomed to failure?

Vertically integrated and sweatshop free

Since the 1990s, apparel companies in Europe, North America, and much of the rest of the developed world have reorganized the way that clothes get produced. No longer do mass market-branded apparel companies like Gap, Levi's, H&M, or Zara manufacture their own clothes. Instead, such companies subcontract their entire manufacturing process—from dying to cutting and stitching—to third-party contractors. Almost always these contractors are located in emerging economies such

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Table 2.7 Cost breakdown of a $14 T-shirt

	Cost ($)	Percentage of total cost of production ($5.67)	Proportion (%) of final price paid by consumer ($14)
Factory overhead	0.07	1.2	0.5
Labour	0.12	2.1	0.9
Agent	0.18	3.2	1.3
Factory margin	0.58	10.2	4.1
Freight, insurance, and duties	1.03	18.2	7.4
Finishing and materials	3.69	65.1	26.4
Total	**5.67**	**100.0**	**40.6**

Source: Original data from O'Rourke Group Partners LLC (2011), reported in Westwood, R. 2013. What does that $14 shirt really cost? *Macleans*, 1 May 2013: http://www2.macleans.ca/2013/05/01/what-does-that-14-shirt-really-cost

as Bangladesh, China, India, Turkey, and Vietnam. Because factories in these countries rely on local labour and employ working conditions that are very different from factories in Europe and North America, they typically enable big brands to produce at considerably lower unit costs than if they manufactured closer to home.

For example, in 2014, while the minimum wage in the US guaranteed workers at least $1,250 per month, Chinese workers were only guaranteed about $175–250 monthly. Meanwhile, according to the International Labour Organization, workers in rival Asian exporters Vietnam and Cambodia earned around $80–110 monthly, while the minimum monthly wage for garment workers in Bangladesh and Sri Lanka was a rock-bottom $60. As a result, labour costs have been reduced to a fraction of the cost of a piece of clothing sold in a high street store. One estimate suggested that a $14 T-shirt sold in the store would cost a retailer about $5.70 to produce. Of this, labour costs would comprise no more than $0.12, or 2% of the total production cost and under 1% of the price paid at the checkout (see **Table 2.7**).

Salaries are not the only way that overseas factories can save money for apparel companies. Contractors in developing countries also operate with very different rules and norms on working conditions, which further reduces costs compared to producing closer to home. Overseas manufacturing typically means lower levels of environmental, health, and safety protection than that enjoyed in North America and Europe, and a greater likelihood of forced overtime, arbitrary pay deductions, child labour, sexual harassment, and other abuses. Although many overseas factories meet internationally agreed minimum labour standards, reports of violations are common.

American Apparel operated a substantially different model. Rather than sourcing its clothes from third-party suppliers in emerging economies, the company utilized a vertically integrated model. This means that all of its manufacturing (including dying, cutting, knitting, and stitching) was completed in-house, as were design, marketing, accounting, retail, and distribution. All of these activities took place at American Apparel facilities in Southern California, particularly its downtown Los Angeles factory, which was the largest garment manufacturing facility in North America.

Perhaps the most remarkable aspect of American Apparel's unique business model was that it enabled the firm to be, or so it claimed, 'sweatshop free'. Workers were paid well above the average compared to typical US rates of pay in the apparel industry. The average American Apparel stitcher earned more than $2,000 monthly, almost double the US federal minimum wage. Workers were also guaranteed full-time employment and promotion opportunities rather than the precarious, part-time, and casual work typical of the industry. Also available were a range of employee benefits including subsidized health insurance, an on-site medical clinic, subsidized public transport, and even free on-site massages! Because so many of its workers were immigrants to the country (typically from Mexico and other parts of Latin America), the company also provided English classes.

Such an unusual approach to doing business in the apparel industry did not come cheap. Producing garments with decent working conditions in the US incurred significant costs in terms of overheads, labour, capital, and training. According to the company, however, its vertically integrated business model in fact offered certain efficiencies because everything was completed in-house. The company claimed that it enabled better quality control and provided for a faster response to the rapid changes in the fashion industry. It also reduced shipping and transport costs of products from their place of manufacture and kept the firm's carbon footprint relatively low. Its claims to be 'sweatshop free' and 'made in the USA' also appealed to its young consumer base, potentially driving greater sales—but these were not major elements of its marketing strategy.

All in all, American Apparel acknowledged that its sweatshop-free approach was 'not the easy road to travel'. Regardless of the benefits, the company remained a conspicuous outlier in an industry that has wholeheartedly embraced the cost savings of global outsourcing.

Political activism

A socially responsible approach to manufacturing was not the only area where American Apparel stood out from the pack in terms of corporate responsibility. The company also took a distinctly unusual approach to political activism. Where most apparel companies either avoid any real political engagement or look to carry out political lobbying behind the scenes, American Apparel took a much more public stance. For many years, the firm actively pursued two hot-button political causes in the US—immigration reform and gay rights—both of which proved to be popular with some and highly controversial with others.

The company's 'Legalize gay' campaign emerged in response to efforts to outlaw same-sex marriage in California, and spread to the protection of gay rights more generally. The firm gave away more than 50,000 of its 'Legalize Gay' T-shirts to lesbian, gay, bisexual, and transgender (LGBT) groups and organizations across the world and featured the T-shirts in its stores during LGBT demonstrations and celebrations. The firm also partnered in organized protests and ran gay rights advertisements in the US. It even stocked the often-explicit gay publication, *Butt Magazine*, in its stores, despite occasional bouts of media controversy.

The 'Legalize LA' initiative, on the other hand, advocated for immigration reform in the US. Like much of the world, immigration issues in the US are very politically sensitive, but as the company's former CEO Dov Charney argued in support of his company's involvement:

> Despite the fact that so many experts agree that the productivity and hard work of immigrants improves our economy, the issue has been grossly misrepresented by the media and certain politicians. Businesses are generally afraid to speak out because they're frightened of reprisals by government agencies, but at American Apparel we have not been able to sit in the shadows while the facts get distorted.

The campaign focused on the company's hometown of Los Angeles, which to this day still has one of the largest concentrations of immigrants in the US. American Apparel itself hired a large proportion of its staff from the city's immigrant community, and featured a number of them in video clips hosted on its Legalize LA webpages. The firm also produced a hard-hitting pamphlet, distributed T-shirts printed with the Legalize LA motto, and raised funds for immigrant organizations, among other activities. Yet, many questioned the business logic of such a stance when the company was investigated by US immigration officials in 2009 and was forced to fire some 1,800 immigrant workers, almost a quarter of its workforce, for 'irregularities' in their immigration documents.

Controversies, catastrophes, and closure

American Apparel was clearly a leader in some areas of corporate responsibility, but its unusual approach coupled with its outspoken boss also caused it a whole host of problems along the way. To begin with, the company was often criticized for its overtly sexual advertising, featuring scantily dressed young girls (and occasionally men) in provocative, borderline pornographic, poses. The use of nudity in adverts (and more recently, visible pubic hair on its mannequins) was successful in courting publicity, but it also threatened the firm's appeal, especially among many parents of its sizeable teenage market. However, the firm also purported to be promoting a more open approach to sexuality, using advertising that eschewed airbrushing and came straight from the firm's headquarters rather than via an advertising agency. It may have had risks, but American Apparel's edgy aesthetic clearly had its legions of fans.

One of the more visible risks of its 'sex sells' approach was a series of sexual harassment claims made against former CEO Charney, beginning in 2005. Although most cases were dismissed or settled, Charney became a divisive figure who not only encouraged romantic relationships in the workplace (unlike much of corporate America, which prohibits them), but actively promoted a highly charged sexual atmosphere. In one now legendary encounter, he even masturbated in front of a journalist while being interviewed in his office. According to one account: 'He's short, hairy and absolutely unapologetic about loving sex—any time, anywhere, with anybody he comes across, up to and including his own company employees.' Even to his supporters, he is something of a 'a tarnished hero'. Ongoing investigations into sexual harassment at the firm eventually led to Charney being fired in 2014.

But it was not just ethical controversies that plagued American Apparel. Even more of a threat to the health of the company was its multitude of financial problems. After years of strong growth and one of the fastest international retail expansions in history, American Apparel started to run into problems around 2009. Its run-in with the immigration authorities led to staff shortages and supply hold-ups, while its super-charged expansion left the company short of cash during the financial downturn. A hike in global cotton prices then drastically cut into the firm's profitability.

As a result, the firm twice faced bankruptcy in 2009 and 2012, only to be saved by last-minute loans from investors. It was even at one point threatened with delisting from the New York Stock Exchange due to financial mismanagement and delays in its filings. Lawsuits from investors followed. From a high of $15 in December 2007, its stock tumbled to below $0.50 in 2014.

A turnaround strategy, including a new management team (and eventually the ousting of CEO Charney), a retrenchment of its retail operations, and debt refinancing, helped American Apparel to arrest its precipitous decline. However, by 2015 the company still had not managed to turn an annual profit since 2009 and once again bankruptcy came calling. The company was still operating at a loss and burdened by heavy debts; the high-cost 'made-in-the-USA' business model could not stand the test of time. Creditors converted the debt into equity and, in 2017, Gildan Activewear purchased American Apparel intellectual property and other assets for $88 million in a bankruptcy auction. Despite retaining the symbolic American Apparel brand assets, the new owners decided to close the American Apparel factories, laying off the 3,000 Southern Californian workers and moving operations outside of the US. The closure of most of its stores followed suit. As of 2017, American Apparel runs as an online-only retailer. Outspoken CEO Dov Charney also launched competitor clothing business, 'Los Angeles Apparel', in 2016, premised upon the same values that motivated Charney at American Apparel, but a more wholesale business model.

To its critics, American Apparel argued that its business model could stand the test of time: 'Manufacturing in America requires risk taking and long-term investment. We think it's well worth it. The apparel industry's reliance on low wages cannot be sustained over time, ethically or fiscally. As labour and transportation costs increase worldwide, exploitation will not only be morally offensive, it will not even be financially viable.' Today, while the focus on 'ethically made, sweatshop free' remains a key part of messaging at American Apparel, the company has swapped its 'made-in-the-USA' mantra for a 'Globally Sourced' strategy. The rise, fall, and potential rebirth of American Apparel provides some useful lessons for business ethics in the 21st century.

2

QUESTIONS

1. What were the main CSR issues faced by American Apparel and how did the business address them?
2. How would you characterize the overall CSR strategy adopted by American Apparel?
3. Who were the main stakeholders of American Apparel and how did the firm prioritize them?
4. What were the potential risks and rewards of American Apparel's political activism on immigration reform and gay rights? Are there ways that it could have improved its approach?
5. To what extent do you think that American Apparel was successful in managing its various social and economic responsibilities? What would you advise American Apparel to do now?

Visit the online resources for web links to useful sources of further information on this Case.

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NOTES

[1] This relationship has been examined at least since the early 1970s, with interest apparently unabated despite (or perhaps because of) the somewhat equivocal findings so far. Overviews of some of its problems are provided by Margolis and Walsh (2003) and Gond and Crane (2010), with a meta-analysis of previous studies provided by Orlitzky et al. (2003).

[2] For further information, see https://www.theguardian.com/business/2016/sep/12/global-justice-now-study-multinational-businesses-walmart-apple-shell.

[3] See, for example, the 'Tax Gap' series run by the *Guardian* newspaper: http://www.theguardian.com/business/series/tax-gap.

[4] For more information, see https://blogs.wsj.com/indiarealtime/2014/04/11/indian-companies-and-charities-arent-ready-for-new-giving-law.

[5] There is an abundance of literature arguing along the lines of this suggested dichotomy. See for instance Porter and Kramer (2002) for a very clear-cut critique of the 'traditional' view. Good reference points are also Porter and Kramer (2011) and Visser (2010). See also Grayson and Hodges (2004) from where we acknowledge taking the 'built-in versus bolt-on' metaphor.

[6] There are a number of excellent papers that offer reviews of stakeholder theory, in particular Donaldson and Preston (1995) and Stoney and Winstanley (2001). A 25-year review of the concept is provided by Phillips (2011).

[7] For more information, see http://marksandspencer.com.

[8] For example, in 2014 Facebook lost an appeal regarding a privacy case in Germany relating to its 'Friend Finder' service (see Knibbs 2014). An earlier 2011 case forced the company to settle with US regulators, committing the company to 20 years of independent audits of its privacy procedures (Bartz and Oreskovic 2009).

[9] For more information on the accusations around Facebook and election meddling, see https://www.theguardian.com/technology/2017/sep/06/facebook-political-ads-russia-us-election-trump-clinton.

[10] *The Economist* (2005). The Ethics of Business, Special Report: https://www.economist.com/special-report/2005/01/20/the-ethics-of-business.

[11] For more information, see https://www.sustainablebrands.com/news_and_views/communications/consumers-rank-ingredient-transparency-among-most-important-issues-bra.

3

Evaluating Business Ethics

Normative Ethical Theories

Having completed this chapter you should be able to:

- Explain the role of normative ethical theory for ethical decision-making in business.
- Understand and apply Western modernist ethical theories, i.e. utilitarianism, ethics of duty, rights and justice, and social contract theory.
- Understand and apply alternative ethical theories, i.e. virtue ethics, ethic of care, discourse ethics, and postmodernism.
- Conduct a pluralist business ethics evaluation.

Key concepts:

- Normative ethical theory
- Ethical egoism
- Utilitarianism
- Ethics of duty
- Categorical imperative
- Human rights
- Justice
- Social contract
- Virtue ethics
- Ethic of care
- Discourse ethics
- Postmodern ethics

3

INTRODUCTION

Whether we are fully aware of it or not, ethical judgements are a part of our everyday lives. We constantly come up against situations where values are in conflict and we have to make a choice about what is right or wrong. Maybe it is a question of whether to lie about something in order to protect a friend's feelings, or driving over the speed limit when rushing to avoid being late for a date, or perhaps deciding whether to report a classmate you have seen cheating on their assignment. The point is that we all have some prior beliefs about what is right or wrong that help us to decide what to do. In most cases, the situations we are faced with in our personal lives are not very dramatic, and are pretty much within the scope of what a typical person would be able to decide. For those living in a complex social setting like a war-zone, individual decision-making and ethics become more complicated and challenging, and very few will have had the advantage of being taught frameworks and concepts to help them unpick the issues. In certain professions, such as the legal or medical profession, decisions will sometimes have enormous, even life or death consequences, and legal and medical ethics are highly developed areas of academic study to help lawyers, nurses, and doctors work through the ethics of their practices (Beauchamp and Childress 2012). In a business context, too, we face complex situations, sometimes with global impact, in which even the best of us could use some help in untangling the rights and wrongs. Luckily, as we will see in this chapter, such help is readily at hand.

Consider the case of a multinational company intending to establish a subsidiary in a developing country. There are a number of ethical problems that may arise—maybe the local public authorities expect to receive bribes for granting planning permission, perhaps labour standards in the country are particularly low, or possibly workplace discrimination is much more common than back home. There is also the additional problem that a variety of people will be involved, all of whom might have different views and attitudes towards these issues. Consequently, coming to an ethical conclusion in business situations is far more complex than in most of the situations where we, as private individuals, have to make ethical decisions.

Perhaps more importantly, in a business context there is often a need for these decisions to be based on a systematic rationale and widely understandable argument, so that they can be adequately defended, justified, and explained to relevant stakeholders. Similarly, if we believe that an organization has acted unethically in responding to these issues, we need some basis from which to argue our case. After all, at what point can we say that a particular behaviour is more than just *different* from what we would have done, but is in some way actually *wrong*? This is the point where **normative ethical theories** come into play. By normative, we mean ethical theories that aim to prescribe the morally correct way of acting; that is, how we ought to behave. It is worth noting that the normative perspective has a counterpoint in descriptive ethical theory. While both normative and descriptive approaches seek to inform morality, normative theory can best be understood as a code of conduct that all rational beings would adhere to. Descriptive morality, on the other hand, applies to a code of conduct adopted by a particular group or society; it may be the guidelines of a religion, for instance (Gert and Gert 2017), which we discuss in more detail later in the chapter. Hence, whereas a commitment to do no harm might be considered a normative guideline that all can arrive at, the French Declaration of the Rights of Man[1] and of the Citizen of 1793 outlines the emphasis on equality and liberty that remain guiding values of individual behaviour in France to this day. The lines are a little blurred here, since descriptive ethical theories need to be evaluated as to whether they are morally sound (that is, they also have a normative component), but for our purposes, we are most concerned with normative ethical theories which are widely applicable, not just of interest to a certain sector or group of society.

Normative ethical theories Rules, guidelines, principles, and approaches that determine right and wrong.

In this chapter we will take a look at the major ethical theories and analyse their value and potential for business ethics. To begin with, though, we first need to be clear about how exactly we shall be using ethical theory in the context of this chapter and in the rest of the book.

THE ROLE OF ETHICAL THEORY

Next time you are all together, take a look around your class—do you anticipate that you will all have the same preferences and beliefs about right and wrong? Do you believe there are some universal ideals accepted by all? This will no doubt be a theme running through your study of business ethics, and here is where ethical theory can begin to be helpful (Fryer 2016). Let's start with the idea that it is possible to discern just one way of looking at right and wrong; that is, ethical objectivism, or absolutism, versus the subjective, context-specific approach of relativism.

- **Ethical absolutism.** On one side of the spectrum would be a position of ethical absolutism, which claims that there are eternal, universally applicable moral principles. According to this view, right and wrong are *objective* qualities that can be rationally determined, irrespective of the circumstances.
- **Ethical relativism.** The other extreme would be a position of relativism, which claims that morality is context-dependent and *subjective*. Stemming in part from anthropological studies of culture, relativists tend to believe that there are no universal right and wrongs that can be rationally determined—it simply depends on the traditions, convictions, or practices of those making the decision. In business ethics studies, the notion of relativism occurs frequently in international business issues, where it is argued that a moral judgement about behaviour in another culture cannot be made from outside because morality is culturally determined. Ethical relativism is different from *descriptive relativism*: while the latter merely suggests that different groups *have* different ethics, the former proposes that both sets of beliefs can be equally *right*. Ethical relativism, as we use it here, is still a normative theory (Gowans 2018).

THINK THEORY

Think about the concepts of absolutism and relativism in the context of bribery. How would each theory conceptualize the problem of bribery and what course of action might they suggest for someone faced with a corrupt official?

Visit the online resources for a suggested response.

Most traditional *Western modernist* ethical theories tend to be absolutist in nature. They seek to set out universal rules or principles that can be applied to any situation to provide the answer as to what is right or wrong. Contemporary ethical theories provide us with some *alternative perspectives* on ethical theory. They often tend towards a more relativistic position. However, in the course of this chapter we want to show that, for the practical purposes of making effective decisions in business, both of these positions have limitations.

Our position is one of *ethical pluralism*. This is something of an alternative approach to absolutism and relativism. A pluralist approach accepts that we ought to recognize that incompatible values can be equally legitimate and tolerate them as such (Liu 2018). According to Elinor Mason (2018), pluralism thus differs from (a straightforward understanding of) relativism and absolutism in that it neither puts all ethical perspectives on an equal footing, nor favours one approach over others. Irene Liu (2018) notes that 'a worry for pluralism is that it is overly tolerant. Some ways of life, practices, institutions, or traditions really are deeply misguided, and in their cases, tolerance is inappropriate.' The potential of radical conflict between logical theoretical perspectives is an inevitable part of pluralism and has to be addressed. We take inspiration from Nobel Prize-winning economist and philosopher Amartya Sen (2000), who acknowledges the profound complexity of the changing world and the value therein of a pluralist approach rather than seeking a universal general theory. He argues that pluralism allows an important openness and sensitivity to new realities.

Ethical theories, as we shall show, can help to clarify different moral presuppositions of the various parties involved in a decision—one person may tend to think in terms of one theory, while another might think in terms of a different theory. In making good business decisions, we need to understand this range of perspectives in order to establish a robust and defensible decision on the solution to ethical problems (Fryer 2016). The primary value of ethical theories lies in the fact that they help to rationalize, explain, and understand the hunches or gut feelings we all have about what is right or wrong. Furthermore, they make it possible to engage in a rational discourse between individuals whose moral values are different from each other.

Though our core focus in this chapter is on European and North American approaches, we acknowledge that there is a growing debate and literature on African, Asian, and Latin-American perspectives on business ethics. Confucian ethics (Kennedy, Kim, and Strudler 2016), for example, has received a growing amount of attention in recent years, and so, as we mentioned in Chapter 1, has the African *Ubuntu* ethics (Naude 2017). There are many more ethical theories which help to balance the theories presented here.

As we indicated in Chapter 1, there is of course a wealth of ethical thinking in business. One of the arenas we have not yet discussed in any detail is the role that religion can play in offering an ethical framework, which we noted above is both descriptive and normative ethical theory. Religion is not a key element of our book or approach, but for some it is an important influence in deciding on ethical practice, so we briefly introduce this perspective here.

Before we proceed with some tricky ethical theory, let's pause to hear from Dr Nolywé Delannon, who is living business ethics through her important work giving voice to the marginalized in society in **Practitioner Spotlight 3**. As you learn about theory, it is worth keeping in mind how very practical trying to 'make a difference' is, and how the theory can help you to structure your ideas and be more effective in achieving change. We will come across other such ethically inspired entrepreneurs in **Ethics in Action 7.1: When saving the world is your day job.**

NORMATIVE ETHICAL THEORIES AND RELIGION

Religious teaching about ethics and normative ethical theory from philosophy both tend to have the same aim when applied to business, namely how to decide what is the right thing to do when faced with moral problems in commerce. Both are therefore focused on ensuring that business is responsible, avoids doing harm, and contributes to societal benefits. However, there are two main differences between the approaches:

- **Source of rules and principles.** Religions typically invoke a deity or an organized system of belief (e.g. the teachings in the Qu'ran or the Talmud) as the source of determining right and wrong. Faith is considered the critical requisite for acting ethically. Philosophical theories, on the other hand, are based on the belief that human reason should drive ethics. Thus according to philosophical perspectives, rationality is the critical requisite for acting ethically.
- **Consequences of morality and immorality.** In religious teaching, there is an important element of spiritual consequence for the decision-maker. These consequences might include salvation, enlightenment, reincarnation, or damnation.

Of course, different religions often have very different things to say about how to go about achieving the goals of ethical business. One example of religious observance for followers of Judaism, for example, is specific periods of abstinence from economic activity. In Jerusalem, this has given rise to a long-running 'Sabbath war' between secular and orthodox residents over whether shops, cinemas, and bars should remain open on the Jewish day of rest (Dunn and Jensen 2018). Islam also provides certain rules about appropriate business practices which has given rise to a distinct system of banking consistent with the principles of Sharia Law that forbid the charging of interest, part of a wider approach to Islamic finance (Hussain, Shahmoradi, and Turk 2016) that we shall discuss in Chapter 6.

In many parts of the world, the influence of religious principles is less direct, but they continue to shape business conduct, even if most economic actors are not devout followers. One such example that has its roots in the Protestant denomination of Christianity is the Protestant Work Ethic, as developed by German Sociologist Max Weber (1905). His position is that 'egalitarian principles, a disdain of leisure activities, and the belief in the importance of hard work were responsible for economic successes seen in the USA and Europe during the turn of the twentieth century' (Zabel et al. 2017: 301). These days the link to Christianity is almost entirely gone, with conceptualizations of the Work Ethic in other religions and none. For instance, Selcuk Uygur has extended this perspective to develop ideas around an Islamic work ethic, which he finds gives moral energy to small business owners in Turkey who are committed Muslims (Uygur et al. 2017).

Clearly, religion is an important part of life for some individuals. Nevertheless, we would not want to overemphasize differences in religious principles when it comes to business. Interfaith groups have long promoted their common cause of improving ethical practices in business. The Interfaith Centre for Corporate Responsibility, for example, seeks to use the collective influence of values-based investors to improve corporate attention to social and environmental issues, regardless of denomination.[2] Similarly, the long-standing Interfaith Declaration, an accord between Christian, Jewish, and Muslim leaders, established an influential set of business principles based on commonalities across the religions. It emphasizes their shared commitment

PRACTITIONER SPOTLIGHT 3 Inspiring ethics leaders of tomorrow

Photo credit: Sébastien St-Jean-Agence QMI

Business and management schools are often critiqued for promoting short-term thinking over a longer-term and more sustainable orientation. But exactly how do we embed business ethics within business and management scholarship? We spoke to **Nolywé Delannon, Ph.D., Assistant Professor at Université Laval in Québec, Canada** to learn more about how her teaching and research is driving more equitable and inclusive societies.

Please can you tell us a bit about how your current job role connects with business ethics? As a professor of International Management in a business school, I aim to fuel conversations on business ethics with students who would not have necessarily attended a class dedicated to the topic. Also, as a researcher and a citizen, I choose the phenomena and challenges I want to research based on my commitment towards issues of business ethics and CSR. For example, until recently I was sitting on the board of a non-partisan political organization for four years—including two as president—and defended young workers' rights and intergenerational equity in Canadian public policy. Ethics and CSR have always guided my public interventions. And as I continue to get invited to address a variety of audiences on issues related to equality and inclusion, I strongly rely on my expertise in CSR to discuss and challenge business–government–civil society relations.

What practical skills are needed to do your job? In a way, I see myself as an entrepreneur; a knowledge entrepreneur. This means that I have to be creative and persistent, to be a multi-tasker, while remaining clear on my limitations in order to know when to search for resources. In fact, being an engaged scholar means navigating different worlds and striving to be both rigorous and relevant; to act as a translator. More challenging, it also means being continuously exposed to criticism from perspectives that are hardly reconcilable. In such a context, my most practical skills are certainly my optimism and my ability to believe so hard in what I do that I keep my eyes on the horizon even when I stumble and fall.

What has been your career path to date? My pathway towards sustainability was far from linear. Being born and raised in French Guiana, a territory 95% covered by the Amazon forest and long protected by traditional knowledge and practices, certainly infused me with the belief in the strong interconnectedness between the environment, society, and the economy. But I was trained in political science and international relations, and I only came to fully realize and formalize my engagement towards sustainability while undertaking graduate studies. I then briefly worked in a consulting company specialized in the facilitation of business–local community relations in major infrastructure projects in Canada. This professional experience was a true revelation for me and I decided to undertake a Ph.D. in Management with a specialization in CSR, more specifically looking into how business interacts with marginalized stakeholders around sustainability issues.

What are the key benefits and challenges of your role from an ethical perspective? One of the key benefits of being a scholar is being able to take advantage of academic freedom. I can publicly discuss issues that I consider important without having to worry about sanctions from my institution. This is a rare privilege and I believe it comes with tremendous responsibility to speak up on important and sometimes difficult societal issues. As regards challenges, I would say that relevance is one that haunts me: How can I make sure that my work, both research- and teaching-wise, actually has some impact, if only at a very local scale? This is one of the reasons why I have chosen to dedicate significant time to contributing to public debate and policy. Recently appointed by the Quebec government to a working group on the collaborative economy, I rely on my expertise in CSR to conduct wide consultations with businesses, nonprofits, and civil society organizations to inform public policy.

If you could change one big world issue, what would it be? As we are seeing increasing divides within contemporary societies at a global scale, I consider this, and underrepresentation, of the marginalized as a big world issue that should be addressed with no delay. By the term 'marginalized', I refer to individuals, collectives, as well as territories that are either absent, misrepresented, or silenced. We can naturally think of migrants and refugees that are the target of growing populist movements across Europe and North America. But we can also think of indigenous people, racialized people, and precarious workers—groups among which women tend to be overrepresented—whose voices are seldom heard first-hand. I believe that we, as academics and practitioners of business ethics, should constantly challenge ourselves to become more inclusive in both our discourse and practice.

SOURCES

[illegible]

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to justice, mutual respect, stewardship, and honesty.[7] Ultimately, although religious principles continue to be influential on the institutional fabric of economic life, as a descriptive ethical theory their direct sustained effect on business culture and practice is significant in only certain regions of the world. Substantial processes of secularization—i.e. movement towards a non-religious form of organizing—have taken place in workplaces across the globe. As such, normative ethical theories, based on philosophical principles, remain at the cornerstone of business ethics for much of contemporary business.

WESTERN MODERNIST ETHICAL THEORIES

In Western societies, the ethical theories traditionally regarded as appropriate for application to business contexts are based on philosophical thinking beginning with the Enlightenment in the 18th century. This age is often also referred to as 'modernity', as it modernized a lot of traditional thinking dominated by religious approaches throughout the Middle Ages. We refer to these theories, therefore, as 'Western modernist'. They generally offer a certain rule or principle that one can apply to any given situation—hence, they are *absolutist* in intention. These theories are normative because they start with an assumption about the nature of the world, and more specific assumptions about the nature of human beings. Consequently, the degree to which we can accept the theory and the outcome of its application to particular business situations depends chiefly on the degree to which we share their underlying assumptions. As they have a rather well-defined rule of decision, the main advantage of these theories is the fact that they normally provide us with a fairly *unequivocal solution* to ethical problems.

There is a distinct point of division in this group: consequentialist and principle-based theories, which we summarize in Table 3.1 and go on to discuss in more detail below. We have, on the one hand, theories that base moral judgement on the outcomes of a certain action—they are goal orientated. If these outcomes are desirable, then the action in question is morally right; if the outcomes of the action are not desirable, the action is morally wrong. The moral judgement in these theories is thus based on the intended outcomes, the aims, or the goals of a certain action. Consequentialist ethics is often also referred to by the term *teleological*, based on the Greek word for 'goal'. We focus on consequentialist theories of ethical egoism and utilitarianism.

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On the other hand, we have those theories that base moral judgements on the derivation of principles and the procedure by which they are arrived at. These *principle-based theories*[4] prioritize what is right, rather than what is desirable. These philosophical theories, also called *deontological* (based on the Greek word for 'duty'), look at the desirability of principles, and based on these principles, deduce a 'duty' to act accordingly in a given situation, regardless of the desirability of the consequences. We focus on the principle-based theories of ethics of duties, and rights and justice.

Table 3.1 Normative theories in business ethics: part one

	Ethical egoism	Utilitarianism	Ethics of duties	Rights and justice
Leading contributors	Thomas Hobbes Ayn Rand	Jeremy Bentham John Stuart Mill	Immanuel Kant	John Locke Jean-Jacques Rousseau John Rawls
Key works	*Leviathan* (TH) *The Virtue of Selfishness* (AR)	*An Introduction to the Principles of Morals and Legislation* (JB) *Utilitarianism, on liberty, considerations on representative Government* (JSM)	*Foundations of the Metaphysics of Morals* (IK)	*Two Treatises of Government* (JL) *The Social Contract* (JJR) *A Theory of Justice* (JR)
Focus	Individual desires or interests	Outcomes and collective welfare	Duties	Rights and the nature of justice
Guiding tenets	Maximization of desires/self-interest	Act/rule utilitarianism	Respect for autonomy and rational reason (in the form of the Categorical Imperative)	Universalizable rules for the nature of justice. Respect for human beings
Concept of human beings	Humans are objectively obliged to serve their self-interest alone	Humans are motivated by avoidance of pain and gain of pleasure	Humans are rational moral actors with free will	Humans are beings that are distinguished by dignity
Type	Consequentialist	Consequentialist	Principle-based	Principle-based

In the following, we will have a closer look at both families of philosophical theories and analyse their potential for solving various business decisions. In explaining these theories, we will use them to reflect on a particular business problem, as presented in Ethical Dilemma 3. We suggest you read this before continuing with the chapter.

CONSEQUENTIALIST THEORIES

Here we shall look at two main consequentialist theories:

- Ethical egoism
- Utilitarianism

These theories address right and wrong by emphasizing the achievement of good goals. However, we shall see that they address those outcomes in different ways—ethical egoism by focusing on the outcomes and self-interest for the individual *decision-maker*, utilitarianism by focusing on the wider *social outcomes within a community.*

Ethics of self-interest: ethical egoism

Egoism is one of the oldest philosophical ideas. It was already well known and discussed by ancient Greek philosophers such as Epicurus, but it has a troubled history. There is real controversy around whether egoism has a place among ethical theories (Arnold, Beauchamp, and Bowie 2014; Gert and Gert 2017). Whereas the other Western modernist theories we address here are pretty standard in business ethics textbooks, ethical egoism quite often does not get mentioned at all, and is dismissed implicitly as offering no ethical insights of value (see, for example, Boatright 2014; Fryer 2015, and unsurprisingly, Bowie 2017 in his Kantian take on business ethics). The controversy lies in the focus in egoism on self-interest, such that the only obligation for a person, or by extension a business, is self-promotion.

Psychological egoism focuses on self-interest as a type of motivation that is the explanation of human conduct. Here we are more concerned with **ethical egoism**. In an early narrow perspective on this, Greek philosopher Epicurus (341–270 BC) was an example of a hedonist, being of the view that pleasure is the ultimate good and should be pursued for its own sake (Shaw and Barry 2016). This, however, is just one version of egoism.

Ethical egoism A theory that suggests that an action is morally right if in a given situation all decision-makers freely decide to pursue either their (short-term) desires or their (long-term) interests.

The most commonly acknowledged protagonist of ethical egoism is probably political philosopher Thomas Hobbes (1588–1679). He had a rather pessimistic view of human nature, such that without strong preventative measures, he believed that in a state of nature (society without any systems, controls, or government), anarchy and chaos would result (Arnold, Beauchamp, and Bowie 2014: 15). In one of his key texts, *Leviathan*, he called this 'the war of all against all' (Plamenatz 1967: 24). This may seem fanciful, but it is worth remembering that he was deeply influenced by the violence of the English Civil War in the 1640s, during which it must indeed have seemed that everyone was against everyone else. Ultimately, Hobbes argued that it was best for everyone—every individual's self-interest—to be governed by some impartial rules. We will come back to this later, but for now, Hobbes' contribution

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ETHICAL DILEMMA 3 **Producing toys—child's play?**

You are the product manager of a confectionery company that includes small plastic toys with its chocolate sweets. Having met a potential Thai manufacturer of these toys at a trade fair in Europe, you now visit the company in the north-eastern part of Thailand to finalize a two-year supply contract. Arriving there and talking to the sales manager, you are able to arrange a deal that supplies you with the toys at a third of the cost currently charged by your Portuguese supplier, but with equivalent quality and supply arrangements.

In order to check the reliability of the manufacturing process you ask the manager to show you around the place. You are surprised to find out that there is no real workshop on the premises. Rather, the production process is organized such that at 6am, about 30 men line up at the company's gate, load large boxes with toy components on their little carts or motor-scooters, and take the material to their homes.

Your prospective supplier then takes you to one of these places where you see a large family, sitting in a garage-like barn assembling the toys. Not only are the mother and father doing the job, but also the couple's six children, aged five to 14, who are working busily—and from what you see, very cheerfully—together with the parents, while the grandmother is preparing the food in an adjacent room. In the evening, at around 8pm, the day's work is done; the assembled toys are stored back in the boxes and taken to the workshop of the company, where the men receive their payment for the finished goods. At the end of the week, the toys are shipped to the customers in Europe.

As you have never come across such a pattern of manufacturing, your Thai partner explains to you that this is a very common and well-established practice in this part of the country, and one that guarantees a good level of quality. Satisfied, you tell the Thai manager that you will conclude the administrative issues once you get back home, and you leave the company offices happy in the knowledge of the cost savings you are going to make, and quietly confident that it will result in a healthy bonus for you at the end of the year.

On your way back, while buying some souvenirs for your five- and seven-year-old nieces at the airport, you suddenly start wondering if you would like to see them growing up the same way as the child workers that you have just employed to make your company's toys.

QUESTIONS

1. Reading the case and putting yourself in the role of the product manager, what would your immediate gut reaction be?
2. Based on your spontaneous immediate decision, can you set out the reasons for your choice? Also, can you relate those reasons back to some underlying values or principles that are important to you?

to understanding ethical egoism is that no person has a moral obligation to others beyond things which serve their own interest.

A more recent but no less controversial protagonist of ethical egoism is Ayn Rand (1905–82). Diametrically opposed to altruism, she believed ferociously in individualism as being at the heart of every human being (Machan 1999). According to Ayn Rand, who grew up during the Russian Revolution before emigrating to America, objectivism is key to ethics and we are each responsible for our own happiness, self-development, and self-perfection. Rand (1964) promoted the idea of a virtue of selfishness (she was also influenced by Aristotle, who we will come to later).

Moving closer to the field of business, other writers, such as the economists Adam Smith (1723–90) and Milton Friedman (1912–2006), have somewhat retrospectively been associated with egoism via their defences of capitalism and the free market (Arnold, Beauchamp, and Bowie 2014), though this again is disputed. Friedman promoted the idea that the responsibility of the business leader is to fulfil fiduciary duties to shareholders ('the business of business is business' (Friedman 1970)). Smith, who was also a philosopher, believed in freedom and cooperation to ensure flourishing. He argued that this results in the promotion of the public good, as long as there are sufficient rules to protect the public, and that we can each participate in a coherent society. Leading business ethics protagonist on the work of Adam Smith, Patricia Werhane (1989), has argued convincingly that by understanding his economic work, *The Wealth of Nations* (1776), alongside his philosophical work, *The Theory of Moral Sentiments* (1759), we can understand his approach as inherently social, whereby we are each accountable to, and therefore regulated by, others. Indeed the subtitle of Smith's philosophical work gives a clue in this direction: 'An Essay Towards an Analysis of the Principles by which Men (sic) Naturally Judge Concerning the Conduct and Character *of their Neighbours*, and Afterwards of Themselves' (emphasis added). Like Ayn Rand after him, Smith identified desirable virtues but, as well as self-interest, they include prudence, benevolence, and justice (Bevan and Werhane 2015; Werhane 1989). Neither Smith nor Friedman advocated the kind of ethical egoism that Hobbes or Rand proposed, devoid of benevolence or sympathy. It is also worth recalling that Friedman directed his work towards publicly traded companies, Smith primarily to privately owned businesses, so neither captures all aspects of the wider business population—which as we saw in Chapter 1 encompasses a range of organizational forms. At the very least, there is disagreement about the central messages in both Friedman and Smith's work. At worst, these important figures in economic history have been misappropriated by those seeking credibility in promoting a neoclassical economic agenda, driven by ethical egoism.

It is important to distinguish egoism based on desire from *selfishness*. Whereas the egoist can be moved by pity for others, the selfish person is insensitive to the other. So, for example, a firm donating to charity to improve the reputation of the company can be in line with an egoistic philosophy, whereas ignoring the charity and spending the funds on a self-promotional advertising campaign that has the same effect on reputation would be more about selfishness.

Within moral philosophy, an important criticism of egoism *based on desire* is that it renders patently different approaches to life as being equivalent; therefore, the life of the student who just gets drunk every night in the bar is as admirable as the student who works hard for a first-class degree, providing both followed their desire. Therefore, within this school of philosophy, an egoism *based on the pursuit of interests* is the ultimate rendering of this concept (Graham 1990). The idea of interests based on the pursuit of one's long-term well-being enables us to distinguish between the life of the hard-drinking student and that of the hard-working student. In this formulation, a gap opens up between desire (or longing) and what is in one's ultimate interests, such that it is not in the interest of the drinking student to give in to immediate desires. An egoism based on interests therefore approaches the idea of objective value—as in, that one way of acting is objectively better or 'more ethical' than another.

This leads to the notion of '*enlightened egoism*', which is quite often discussed in the context of business ethics. We have come across it already in Chapter 2 when discussing 'enlightened self-interest'. Corporations might invest in the social environment, for instance, by supporting schools or sponsoring a new ambulance for the local health service, because an improved level of social services is in the interest of workforce retention and satisfaction.

If we apply the theory of egoism to the case in Ethical Dilemma 3, we would have to look at the actors involved and analyse whether they freely pursue their own desires or interests in engaging in the deal. This certainly applies to the manager and his Thai partner, and by the looks of the case, it could also apply to the parents of the family business. As for the children, it could be that they are quite happy to help the parents and just take it for granted that things work like this in their world. From this perspective, an egoistic look at the situation might consider the deal as morally acceptable. Is it in the children's long-term interest to engage in this type of work?: although one could argue that it prevents them from being forced into far less desirable forms of work, moral concerns arise when considering that this type of work prevents them from gaining a decent education, enjoying time for play, and exposes them to fairly long working hours, all of which casts doubt on whether they really are able to freely pursue their own interests. The latter considerations then would tend to suggest that from an egoistic point of view this action might be immoral.

It does not take much thought to discover certain weaknesses in egoist ethics. To begin with, this theory works fine if there is a mechanism in society that makes sure that no individual egoist pursues their own interests at other egoists' expense. In Adam Smith's thinking, this mechanism would be the free market. Although we can see that the market usually works quite well, there are numerous situations of 'market failure', where this does not seem to be the case, and where the egoism of single actors leads to unfavourable results (Moriarty 2017). Current concerns about growing income inequality, for example, are fuelled by the idea that markets are not functioning perfectly and we thus witness a heavily skewed distribution of wealth to the top 1% of earners in society. Another example would be the sustainability debate: the victims of today's resource depletion or global climate change are future generations, which are not yet present to take part in any kind of market. This clearly shows some initial limitations of egoist theory.

To conclude where we started this section, some do not see ethical egoism as a moral theory at all (Shaw and Barry 2016). Egoism, it is argued, cannot be a moral theory because it is internally inconsistent, since each person pursues their own self-interest and must accept that others do too, despite the fact that this is not in their own self-interest. It also condones blatant immoral wrongs, since 'anything goes'—violence against the vulnerable, theft, even murder—as long as the egoist's needs are served. This is perfectly illustrated in **Ethics on Screen 3**, *Baby Driver*, in which extreme egoism leads to the annihilation of a group of criminals. While the other ethical theories we discuss here are all subject to disagreement and debate, they each are more consistently accepted as a legitimate approach to business ethics than ethical egoism despite, some would argue, the observable presence of egoistic practice in some sectors of business, not least the financial markets, as nicely depicted in **Ethics on Screen 6**, *The Big Short*.

Ethics of outcomes: utilitarianism

The philosophy of utilitarianism has been one of the most commonly accepted ethical theories in the Anglo-Saxon world. We have yet to come across a business ethics book which does not include it. It is linked particularly to the British philosophers and social reformers Jeremy Bentham (1748–1832) and John Stuart Mill (1806–73), and has been influential in modern economics in general. Bentham and Mill believed that being ethical meant doing that which has good outcomes for all people (Shaw and Barry 2016: 61).

The basic foundation of **utilitarianism** is the '*greatest happiness principle*'. This is the ultimate consequentialist principle as it focuses solely on the consequences of an action, weighs good outcomes against bad outcomes, and encourages the action that results in the greatest amount of good for everyone involved. Unlike egoism, it does not only look at each individual involved, and ask whether their individual desires and interests are met, but it focuses on the *collective welfare* that is produced by a certain decision.

Utilitarianism A theory which states that an action is morally right if it results in the greatest amount of good for the greatest amount of people affected by the action.

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The underlying concept in utilitarianism is the notion of utility, which Bentham sees as the ultimate goal in life. Humans are viewed as hedonists, whose purpose in life is to maximize pleasure and minimize pain. In this hedonistic rendition of utilitarianism, utility is measured in terms of *pleasure and pain* (the 'hedonistic' view). Other interpretations of utility look at *happiness and unhappiness* (the 'eudemonistic' view), while others take a strongly extended view that includes not only pleasure or happiness, but ultimately all *intrinsically valuable human goods* (the 'ideal' view). These human goods would typically include aspects such as friendship, love, trust, etc. The latter view in particular makes utilitarianism open to a great number of practical decision situations and prevents it from being rather narrowly focused on pleasure and pain only. **Table 3.2** summarizes some of the essential characteristics of the classical version of utilitarianism.

Utilitarianism has been very powerful, since it puts at the centre of the moral decision a variable that is very commonly used in economics as a parameter that measures the economic value of actions: 'utility'. Regardless of whether one accepts that utility really is quantifiable, it comes as no surprise to find that utilitarian analysis is highly compatible with the quantitative, mathematical methodology of economics. So, in analysing two possible options in a single business decision, we can assign a certain utility to each action and each person involved, and the action with the highest aggregate utility can be determined to be morally correct. Ultimately, utilitarianism comes close to a *pain-pleasure* version of what we know as *cost-benefit analysis.*

Table 3.2 Essential characteristics of utilitarianism

Characteristic	Description
Consequentialism	It is the measurement of the consequences of an action which determine if it is ethically correct. Hence utilitarian is a teleological theory.
Hedonism	Utility is identified by pleasure and the absence of pain. Only pleasure is ultimately good, but the amount of pain can be deducted from the amount of pleasure to yield the 'net pleasure'.
Maximalism	A right action doesn't only have some good consequences, but the greatest possible amount when bad consequences are also taken into account.
Universalism	Consequences for everyone need to be considered.

Source: Adapted from Boatright (2014)

Typical situations where a utilitarian approach can be very helpful are analyses of proposed initiatives, such as social and environmental impact assessments of mining or infrastructure projects. These assessments take into consideration all of the likely positive and negative impacts of a given project, including the impact on employment, community development, and environmental quality, with a view to determining whether the project will have an overall benefit to society. For example, in most developed countries new mining projects are controversial, placing a burden ('pain') on the local community and environment, but providing financial benefit to shareholders and employees, and resource availability to consumers ('pleasure'). In the initial process of permit provision, and latterly an arbitration process by the World Bank, one such example is the progress of Europe's largest proposed gold mine around the town of Rosia Montana in Romania. Studies have demonstrated the likelihood of significant social, environmental, and cultural damage. Repeated mass protest movements have arisen in the country after one Romanian Government in 2013 sought to secure the development of the mine, while a subsequent Government in 2017 applied for UNESCO heritage status to protect the land from development. This resulted in Canadian mining company Gabriel Resources claiming $4.4bn damages, and the World Bank arbitration process (Buckley 2017).

If we apply this theory to the situation described in **Ethical Dilemma** 3, we first have a look at all the stakeholders concerned and analyse their potential utility in terms of the pleasure and pain involved in different courses of action, either going ahead with the deal (action one) or not doing the deal (action two). We could set up a simple balance sheet, such as that depicted in **Table 3.3**.

After analysing all of the good and bad effects for the persons involved, we can now add up 'pleasure' and 'pain' for action 1, and the result will be the *utility* of this action. After having done the same for action 2, the moral decision is relatively easy to identify: the greatest utility of the respective actions is the morally right one. In our hypothetical case, the decision would probably go in favour of action 1 (doing the deal) as it involves the most pleasure for all parties involved, whereas in action 2 (not doing the deal), the pain seems to dominate the analysis.

Table 3.3 Example of a utilitarian analysis

	Action 1: doing the deal		Action 2: not doing the deal	
	Pleasure	Pain	Pleasure	Pain
Product manager	Good deal for the business; potential for personal bonus	Bad conscience; possible risk for company reputation	Good conscience; less risk	Loss of a good deal
Thai dealer	Good deal			Loss of a good deal; search for a new customer in Europe
Parents	Secure the family's income	Limited prospects for children		Search for other sources of income
Children	Feeling of being needed, being 'grown up'; approval of the parents	Hard work; no chance of school education	No hard work; time to play and go to school	Potentially forced to do other, more painful work
Grandmother	Family is able to support her			Loss of economic support

This example demonstrates some of the complications with utilitarian analysis. Proponents and critics of proposed practices can both summon a host of benefits and harms to support their cases, making any comparative assessment difficult. Case 3, for example, elaborates the controversies around the exploration of the oil sands in Canada, where a longstanding debate on the pros and cons of development has so far not led to a conclusive outcome; this points to some core *problems with utilitarianism*:

- **Subjectivity**. Clearly when using this theory you have to think rather creatively, and assessing such consequences as pleasure or pain might depend heavily on the subjective perspective of the person who carries out the analysis. Contemporary Australian utilitarian philosopher Peter Singer argues, somewhat controversially, that when calculating who is affected by an act, animals should be included in the calculations on equal footing with humanity (Singer 2011). So the subjective question of who/what is incorporated into the calculation is just as important as the decision about what the consequence is likely to be for them. If it is hard to make these choices for humans, imagine the challenges of doing so for non-human species.
- **Equal weighting**. While there are subjective choices to be made in applying utilitarianism, according to the principle of universalism, all must be included and equal weight needs to be given to all concerned. Thus we must neither exclude nor prioritize ourselves: our own pain or pleasure—or that of those nearest to us—has equal weight to everyone else's. This means that a business manager has equal responsibility to include the welfare of distant community members of their suppliers as they do their employee's welfare or even their own employment.
- **Problems of quantification and calculation**. Similarly, it is quite difficult to assign costs and benefits to every situation, and in business terms, apply monetary values. In the example, this might be quite easy for the persons directly involved with the transaction, but it is certainly difficult to do so for the children involved, since their pleasure and pain is not quantifiable. Especially in these cases, it might be quite difficult to weigh pleasure against pain: is losing a good contract really comparable to forcing children into labour? Similarly, under utilitarianism, health and safety issues in the firm require 'values' of life and death to be quantified and calculated, without the possibility of acknowledging that they might have an intrinsic worth beyond calculation. What monetary value is the right one to put on the experience of childhood?
- **Distribution of utility**. Finally, it would appear that by assessing the greatest good for the greatest number, the interests of minorities are overlooked. In our example, a minority of children might suffer so that the majority might benefit from greater utility. We might also think about the distribution over the long and short term. A decision to pollute might maximize short-term utility for current generations but if future generations are taken into account, the outcome would be completely different.

Of course, utilitarians were always aware of the limits of their theory. The problem of subjectivity, for example, led to a refinement of the theory by John Stuart Mill, differentiating between what has been defined as 'act utilitarianism' and 'rule utilitarianism':

Act utilitarianism looks to single actions and bases the moral judgement on the amount of pleasure and the amount of pain this single action causes.

Rule utilitarianism looks at classes of action and asks whether the underlying principles of an action produce more pleasure than pain for society in the long run.

Our utilitarian analysis of **Ethical Dilemma 3** used the principle of act utilitarianism by asking whether just in that *single situation* the collective pleasure exceeded the pain inflicted. Given the specific circumstances of the case, this might result in the conclusion that it is morally right, because the children's pain can be considered small, given the fact, for instance, that they might have to work anyway or that school education might not be available to them. From the perspective of *rule utilitarianism*, however, one would have to ask whether child labour *in principle* produces more pleasure than pain. Here, the judgement might look considerably different, since it is not difficult to argue that the pains of child labour easily outweigh the mainly economic benefits of it. Rule utilitarianism then relieves us from examining right or wrong in every single situation, and offers the possibility of establishing certain principles that we then can apply to all such situations. These tend to be along the lines of 'don't kill', 'don't bribe', and 'don't break promises', and support the idea that rules have a central position in society that can't be compromised even by particular circumstances (Arnold, Beauchamp, and Bowie 2014). The focus on rules comes up again in the principle-based theories we discuss next.

PRINCIPLE-BASED THEORIES

Another branch of traditional ethical theory is principle-based theories. Here we shall look at two main types of principle-based ethical theories that have been traditionally applied to business ethics:

- Ethics of duties
- Ethics of rights and justice

These approaches stem from assumptions about basic universal principles of right and wrong. However, while rights-based theories tend to start by assigning a right to one party and then advocating a corresponding duty on another party to protect that right, ethics of duties *begin* with assigning of the duty to act in a certain way.

Rights and duty have also been central to many religious perspectives on business ethics, and remain important influences on business decision-makers worldwide, especially in regions with high rates of religious adherence, such as Latin America, the US, the Middle East, and Africa. Such approaches start from the basis of divine revelation, as found, for instance, in the religious tracts of the three monotheistic religions of Judaism, Christianity, and Islam, which ascribe enduring duties of humans to God, or conversely, 'God-given rights'. In such a revelation of what is right or wrong, human behaviour has its divine, eternal validity—regardless of whether the outcomes in a given situation are in anybody's self-interest (egoism) or result in more pleasure or pain (utilitarianism), as consequentialist approaches would suggest. In secular societies, the ideas of rights and duties are equally strong and have been enshrined in various norms and laws, including everything from a doctor's duty of care to a citizen's right to privacy.

Ethics of duties: Kantianism

In business ethics, the most influential theory to come from the perspective of **ethics of duty** derives from the work of the German philosopher Immanuel Kant (1724–1804). Kant's impact on ethics can't really be underestimated. For many (whether they know anything of moral theory or not) ethics is basically what Kant determined it to be (MacIntyre 1967: 190). Like the utilitarians, Kant was strongly influenced by the European Enlightenment times in which he lived (Fryer 2015).

Ethics of duty Ethical theories that consist of abstract, unchangeable obligations, defined by a set of rationally deduced a priori moral rules, which should be applied to all relevant ethical problems.

Kant argued that morality and decisions about right and wrong were not dependent on a particular situation, let alone on the consequences of one's action. For Kant, morality was a question of certain abstract and unchangeable obligations—defined by a set of a priori moral rules—that humans should apply to all relevant ethical problems. Kant was convinced that human beings do not need God, the church, or some other superior authority to identify these principles for ethical behaviour. In his thesis, mainly published in the *Foundations of the Metaphysics of Morals* (1785), he saw humans as *rational* actors who had *free* will to make their own choices and could decide these principles for themselves. Hence, humans could also be regarded as independent *moral actors* who made their own rational decisions regarding right and wrong.

Kant fervently argued that motivation matters, and that duty lies at the heart of morality. Choices made that are driven by sentiment (physical or emotional drivers) are not morally correct. Kant didn't look to a commonplace understanding of duty—that you should do what your teacher/parent/boss tells you—but a duty which is derived from a commitment to do the right thing for the sake of the moral law. He carefully defined and reformulated the moral law over his lifetime. Kant argued that acting from principle in this way was a uniquely human characteristic (Shaw and Barry 2016: 67).

Kant subsequently developed a theoretical framework through which these principles could be derived, called the **categorical imperative** or unconditional moral law, that must be obeyed in all circumstances. By this, he meant that this theoretical framework should be applied to every moral issue regardless of who is involved, who profits, and who is harmed by the principles once they have been applied in specific situations.

Categorical imperative Act only according to that maxim (principle or rule) by which you can at the same time will that it should become a universal law.

Kant helpfully developed different aspects of the categorical imperative which make it a little easier to understand and use, as shown in **Table 3.4**.

If we look again at **Ethical Dilemma 3** and try to determine whether it is ethical from a Kantian perspective:

- According to the idea of *universal acceptability*, the first question would be to ask if we would want everybody to act according to the principles of our action in all circumstances. Obviously, as the product manager you are already uncomfortable about applying the principle of exploiting child labour from a third-world context to your own family back home in Europe. You probably would not like this to become a law that is consistently applied, which would then suggest that this activity could be deemed immoral on the basis that it is not universally acceptable.

Table 3.4 Key formulations of the categorical imperative

Element	Thinking	Examples and implications
Universal acceptability	Accept a moral law only if all rational beings can also embrace it	Without exception, the same rules apply in all circumstances. Failure to repay debts is not universalizable because if it became commonplace, no-one would lend money; lying not universalizable, because if everybody were allowed to lie, the entire notion of 'truth' would be impossible, and an organized and stable human civilization would not be imaginable.
Respect for persons	Treat humanity as an end, never merely as a means to an end	Humans deserve respect as autonomous, rational actors, and this essential human dignity should never be ignored. Businesses use people as means; they employ them or pay them to provide us with goods or services. However, this does not mean we should *only* treat them as means to achieve what we want and just forget about their own needs and goals in life (e.g. health, personal fulfilment, education, a good standard of living), and their expectations to make their own choices.

- Regarding the principle of ***human dignity***, it is questionable whether the children have freely and autonomously decided to work. By making use of their labour, you could be said to be largely treating them as cheap labour for your own ends rather than as 'ends in themselves', suggesting that their basic human dignity was not being fully recognized and respected.

Kant's theory has been extensively examined in relation to business (Bowie 2017), and even just the key elements we have highlighted here (a thumbnail sketch from Kant's lifetime of thinking) can be very helpful in practical situations and have had a considerable influence on business ethics thinking. For example, in Chapter 2 we discussed the *stakeholder concept* of the firm. Evan and Freeman (1993) argued that the ethical basis of this concept has been substantially derived from Kantian thinking. Hence, in order to treat employees, local communities, or suppliers not only as means, but also as constituencies with goals and priorities of their own, Evan and Freeman suggest that firms have a fundamental *duty* to allow these stakeholders some degree of influence on the corporation. By this, they would be enabled to act as free and autonomous human beings, rather than being merely factors of production (employees) or sources of revenue (consumers), etc.

While terminology like duty, freedom, choice, respect, and rational decision-making is commonplace in business life, understanding these perspectives from a Kantian point of view would no doubt increase the integrity of business practice no end.

THINK THEORY

Stakeholder theory has also been considered from other theoretical perspectives. How would you apply utilitarianism, for instance, to the concept of stakeholder theory? Do you think that the two different perspectives would suggest different obligations towards stakeholders?

Visit the online resources for a suggested response.

There are, however, also problems with *Kantianism*:

- **Undervaluing motivation.** Kant's emphasis that the only morally acceptable motivation for a certain act is to do one's duty for its own sake, as defined by the categorical imperative, is a little extreme. Imagine a business manager who agrees to pay a new minimum wage because they know employees are struggling financially versus a business manager who agrees to pay the same minimum wage because she uses her free will to reason that it is her duty according to the categorical imperative (and she always does her duty for its own sake). The result is exactly the same in each case, but the first business manager is not considered morally worthy whereas the second one is. We discuss the place of motivations in ethical decision-making more in Chapter 4. In a related way, what if the act goes far beyond duty according to Kant? This is sometimes called a supererogatory act. Could we really say it was unethical for a nurse to stay well beyond his shift to comfort a dying patient, or for a manager to work through a public holiday herself so that her staff can take the holiday, even though they would normally be expected to work?
- **Undervaluing outcomes.** Given that this approach is based on duty, not outcomes, Kant does not allow for cases where a little rule-bending might be for the best. An oft-cited example is reflection on whether it is really justifiable to stick to the duty not to lie when an innocent person's life is at stake. When a drugs gang are mistakenly after someone, for instance—would it be right to tell the gang where the person is hiding? In a business context, is it acceptable for a new start-up business to cut a few corners on what is ethical and use their family members as a means of free labour to help them get their business off the ground? If the business is successful, a utilitarian would say using others as a means to your own ends in this way is justifiable, on the basis that many people will ultimately benefit.
- **Assumption of rationality.** Kant's theory is quite optimistic: his view of humans as rational beings who act according to self-imposed duties seems more of an ideal than a reality with regard to fast-paced contemporary lifestyles. Even if some can muster the rational autonomy and free will to attend to the categorical imperative, what about others who are not in a position to make such decisions? Are children, whose reasoning faculties are still developing, or those who may struggle for whatever reason to maintain a rational thought process, incapable of being ethical? Given the complexity of life, not least business, can any of us expect to work calmly through the categorical imperative before every decision?

All in all, is it reasonable for each individual to take responsibility for their own ethical practice, or are there some systems and structures which pre-determine some element of ethics for us? This is where we turn to the ethics of rights and justice, and social contract theory.

Ethics of rights: human rights

In Chapter 2 we briefly discussed the notion of citizenship in terms of a set of individual rights. Actually, this notion of rights goes back to an entire philosophical school initially linked most prominently to another modernist thinker, the British philosopher John Locke (1632–1714). He conceptualized the notion of 'natural rights', or moral claims, that humans were entitled to, and which should be respected and protected (at that time, primarily by the state). Among the most important rights conceived by Locke and subsequent rights theorists were *rights to life,* *freedom, and property*. These have since been extended to include rights to freedom of speech, conscience, consent, privacy, and the entitlement to a fair legal process, among many others. Most people now talk of '**human rights**' rather than natural rights, with the assumption that all humans, irrespective of their gender, race, religion, nationality, or any other factor, should be able to universally enjoy such rights.

Human rights Basic, inalienable, and unconditional entitlements that are inherent to all human beings, without exception.

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The general significance of the notion of rights in terms of an ethical theory lies in the fact that these rights typically result in the duty of other actors to respect them. In this respect, rights are sometimes seen as related to duties, since the rights of one person can result in a corresponding duty on other persons to respect, protect, or facilitate these rights. My right to property imposes a duty on others not to interfere with my property or take it away. My right to privacy imposes a duty on others to refrain from gathering personal information about my private life without my consent. Rights and duties are therefore frequently seen as two sides of the same coin.

This link to corresponding duties reflects some of the aspects we found in Kant's approach. The main difference is that it does not rely on a complex process of determining the duties by applying the categorical imperative. Rather, the notion of rights is based on a certain axiomatic claim about human nature that rests mostly on various philosophical approaches of the Enlightenment, often backed up by certain religious views, such as the approach of Catholic social thought. Human rights are based on a certain consensus about the nature of ***human dignity***.

Despite its lack of a complicated theoretical deduction—or maybe even just because of its rather simple and plausible viewpoint—the rights approach has been very powerful throughout history and has substantially shaped the constitutions of many modern states. This includes the United States Constitution (1787), which is largely based on notions of rights. After the atrocities of World War II, these ideas also influenced the Universal Declaration of Human Rights (1948), led by Eleanor Roosevelt. This remains a powerful standard of worldwide endorsement of various rights and is incorporated into the European Convention on Human Rights (1953).

It is this background that makes the entire notion of human rights one of the most common and important theoretical approaches to business ethics on a practical level. Corporations, especially multinationals, are increasingly judged with regard to their attitude to human rights and how far they respect and protect them. More than 13,100 organizations, for example, have signed up to the UN Global Compact, which includes human rights obligations as its first two principles (see **Ethics in Action 11.2**). These are that 'businesses should support and respect the protection of internationally proclaimed human rights' (Principle 1) and that 'businesses should make sure that they are not complicit in human rights abuses' (Principle 2). Many companies are also increasingly seeking to develop their own human rights policies. The Business and Human Rights Resource Centre hosts a useful database of human rights reporting by corporations.[5]

George Brenkert (2016), in his review of human rights from a business ethics perspective, points out that very little is ever discussed about which human rights businesses are responsible for. There are, after all, around 50 listed in the Universal Declaration of Human Rights, ranging from the choice of parents over their children's education (not normally the realm of business), to articles specifically related to work, which are more obviously relevant. A couple of business-specific examples include:

- Article 12—relating to worker and customer privacy

No one shall be subjected to arbitrary interference with their privacy, family, home, or correspondence, nor to attacks upon their honour and reputation. Everyone has the right to the protection of the law against such interference or attacks.

- Article 20—relating to workers and trade unions
  (1) Everyone has the right to freedom of peaceful assembly and association.
  (2) No one may be compelled to belong to an association.

- Article 23—relating to work and employment
  (1) Everyone has the right to work, to free choice of employment, to just and favourable conditions of work, and to protection against unemployment.
  (2) Everyone, without any discrimination, has the right to equal pay for equal work.
  (3) Everyone who works has the right to just and favourable remuneration, ensuring for themself and their family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection.

In reality, businesses should and must be clear what their priorities are, though this is tricky, since few would want to admit to not supporting any given human right.

An important initiative intended to change the commitment of business corporations to human rights issues dramatically is the United Nations Guiding Principles on Human Rights (UNGP or 'Ruggie Principles' after their author, political scientist John Ruggie). These heralded a renewed corporate focus on human rights in the 2010s and have started to shape the engagement of global businesses with human rights issues, though progress has been slower than hoped, as **Ethics in Action 3.1** discusses. The UNGP were adopted by the UN in 2011 and seen as a big step forward in clarifying internationally the responsibility of business in relation to human rights. The principles refer to the three areas of protecting and respecting human rights and remedying violations thereof. Although there are crossover responsibilities (e.g. the state takes responsibility for ensuring judicial systems, businesses should be prepared to engage in non-judicial remedies), the responsibilities are primarily directed at:

- STATE: The state duty to **protect** human rights
- BUSINESS: The corporate responsibility to **respect** human rights
- JUDICIARY: Access to **remedy** for victims of business-related abuses

In more detail, the UNGP states that 'business enterprises should respect human rights. This means that they should avoid infringing on the human rights of others and should address adverse human rights impacts with which they are involved'.[6] This imperative applies to businesses of any size, structure, sector, or operational context, and requires that they (a) avoid causing or contributing to adverse human rights impacts through their own activities, and address such impacts when they occur; and (b) seek to prevent or mitigate adverse human rights impacts that are directly linked to their operations, products, or services, by their business relationships, even if they have not contributed to those impacts. In practice, the expectation is that all businesses, proportionate to size, have a policy commitment to human rights, a due diligence process, and remediation in place for any human rights problems.

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Ethics in Action 3.1 Human rights and business: from principles to practice

Lauren Compere, Huffington Post

This month marks five years since the adoption of the UN Guiding Principles on Business and Human Rights (UNGPs)—a landmark moment in the acceptance of human rights as not just being a corporate responsibility issue but fundamental to core business practices. The UNGPs define a global standard for preventing and addressing the risk of negative human rights impacts by business activity. However, moving from principles to practice in the last five years has not been easy.

Making good ethics good business

The first achievement of the UNGPs has been to make a strong business case to companies to ensure they manage human rights risks. Companies that proactively manage human rights issues benefit from enhanced reputation, increased business opportunities, and reduced exposure to risk, while those that don't can suffer real value destruction, if and when things go wrong. For example, in 2012, the share price of South African platinum producer Lonmin dropped 30% the week after 34 workers were shot and killed at its Marikana mine. Another powerful example was cited in a 2010 report of then Special Representative of the Secretary-General John Ruggie that helped launch the UNGPs. That report noted that a major oil and gas company experienced an estimated $6.5bn worth of value erosion from 'non-technical' risks, such as human rights issues, over a two-year period.

The regulatory environment is tightening

In the last five years, we have also seen a greater focus on this issue by regulators, with a trend for putting responsibility for oversight of these risks not only on the shoulders of company management but right through to the boardroom. The UK Modern Slavery Act, enacted in 2015, requires every organization conducting business in the UK with a total annual turnover of $36m or more to produce a slavery and human trafficking statement for each financial year of the organization. Organizations are required to publish this statement on their website and include a link to the statement from a prominent place on the website's homepage.

Investors at risk

Investors have also played their part in pushing corporate action from principles to practice since the UNGPs' adoption. In February 2015, an investor statement in support of the UN Guiding Principles Reporting Framework—a framework for corporate disclosure on human rights—was launched and today has 84 signatory investors managing over $4.8 trillion in assets. One of the drivers for this investor action is the growing risk of reputational damage to investors themselves if their risk management and due diligence procedures for assessing human rights risk are perceived to be weak. In 2013, despite being minority shareholders, two European investors faced censure by the Organisation for Economic Co-operation and Development (OECD) when they were perceived to have applied insufficient human rights due diligence over their investments in POSCO—a South Korean steel company linked to forced evictions and human rights violations in India.

(. . .) it should be no surprise that investors are increasingly asking the companies in which they invest to know and show how they are managing human rights-related issues throughout their businesses from merger and acquisition activity and down through their supply chain.

Time to hit the accelerator

A recent report commissioned by law firm Eversheds[7] showed that expectations have shifted. They surveyed 200 in-house general counsels, members of company boards, and human resource directors in 10 industries across 34 countries, and found that over one quarter of organizations are already making positive advances, with 33% publicly reporting against the UNGPs, and that 47% use their purchasing power to exert leverage on supply chain to support human rights. That is encouraging, but still leaves much work to do. In the next five years, the focus should be on catalysing even wider change and the Eversheds survey also highlighted two key challenges to this: a lack of awareness, and of adequate resources to support progress. In total, 43% of respondents give their senior leadership a low rating for their human rights approach and a priority for the coming years should be ensuring that change comes from the top.

Making it simpler in the next five years

We must make it as easy as possible for companies to understand the expectations of investors and others so they can embed good practice in their everyday business. In an age where many companies have global operations and complex supply chains this requires clear and simple guidance.

Fortunately, the response to this challenge was boosted last month by the UK Equality and Human Rights Commission, an independent statutory body of the UK government, and Shift, the leading centre of expertise on the UNGPs, who jointly authored 'Business and human rights: A five step guide for company boards'.[8]

As the title suggests, this sets out straightforward guidance for directors of UK companies to help them identify, mitigate, and report on the human rights risks and impacts of their businesses. The guide is equally helpful for investors, as it facilitates a more productive dialogue with companies around the five steps they should take to ensure the organization and board of directors fully understand the responsibilities laid out under the UNGPs. These obligations need to then be shored up by appropriate employee training, along with resources to drive implementation.

The launch of this guide is an important milestone, one that I hope ushers in strong commitment from businesses—from the boardroom down through their supply chain—to actively respect human rights around the world.

The information in this document should not be considered a recommendation to buy or sell any security.

SOURCE

Lauren Compere. 2017. 'Human Rights and Business: From Principles to Practice', *The Huffington Post*, 15 June https://www.huffingtonpost.com/lauren-compere/human-rights-business-fro_b_10465824.html.

QUESTION

The Ruggie principles assign a central role to business in respecting human rights. Which of the rights set out in Chapter 3 would companies be most likely to have to respect in their business operations?

Visit the online resources for web links to useful sources of further information.

The perspective of human rights certainly provides the most straightforward answer to **Ethical Dilemma 3**. In using child labour, the product manager could be said to violate the rights of the children to education, and arguably to infringe the right to freedom of consent. Furthermore, a human rights perspective would cast doubt on the issue of an individual's right to a living wage, as it would appear that poor wages could have necessitated the engagement of the entire family in employment over long hours of work rather than paying one parent a suitable wage to provide for his or her family.

Ethical theories based on rights are very powerful because of their widely acknowledged basis in fundamental human entitlements. However, the theoretical basis is one of plausibility rather than a deep theoretical methodology. Some object to the idea that corporations should take on the role of protector of human rights, and act as if they were states (Hsieh 2015; Wettstein 2012), and indeed the UNGPs expect a lot from businesses as the protector of human rights, while it is still not clear which human rights are most relevant for business. Perhaps the most substantial limitation of this approach is that notions of rights are quite strongly located in a Western, individualistic view of morality. A considerable amount of friction might occur if these ideas were to be directly transferred, if not imposed, on communities with a different cultural and religious legacy.

3

Ethics of rights: justice

Whenever two parties enter an economic transaction there has to be agreement on a fair distribution of costs and benefits between the parties. Such agreements are usually handled by contracts or left to market forces to resolve. Various questions about the equity of such distribution inevitably arise, however:

- How should a company pay its shareholders, executives, office workers, and manual staff so that everybody gets fair compensation for their input into the corporation?
- How should a company take into account the demands of local communities, employees, and shareholders when planning an investment with major impacts on the environment?
- How should a government allocate money for education so that every section of society gets a fair chance of a good education?

We could easily multiply these examples, but what becomes clear is that individual rights have to be realized in such a way that they are addressed equally and fairly. This is where the issue of justice arises, since justice is all about how fairly individuals are treated so that they get what they deserve.

> **Justice** The simultaneous fair treatment of individuals in a given situation with the result that everybody gets what they deserve.

The crucial moral issues here are what exactly 'fairness' should mean in a particular situation and by which standards we can decide what a person might reasonably deserve. According to Boatright (2014), useful ways to view justice see fairness in two main ways:

- **Fair procedures.** Fairness is determined according to whether everyone has been free to acquire rewards for their efforts.
- **Fair outcomes.** Fairness is determined according to whether the consequences (positive and negative) are distributed in a just manner, according to some underlying principle such as need or merit.

Most views of justice would ideally seek to achieve both types of fairness, but this is not always possible. Consider the case of access to higher education. Say it was discovered that certain ethnic groups were under-represented in your university's degree programmes. Given that ethnicity is not correlated with innate intelligence, we might seek to solve this problem by reserving a certain number of places for under-represented groups to make sure that educational rewards—fair outcomes—were distributed fairly among these different sections of society. However, this would impose a potentially unfair procedure on the university's admissions, since 'over-represented' groups would be excluded from applying for the reserved places. This is an ongoing debate in India, where a quota system reserving more than 20% of available places for lower-caste Hindus in government-funded academic institutions has long been in operation but continues to generate controversy.

Notions of justice have been widely applied in business ethics problems, notably in relation to employment practices and the question of discrimination, as we shall examine in more depth in Chapter 7. Justice has also been a key feature of debates about globalization and sustainability. Here, the main concern is about issues of social and economic justice and how society is organized to achieve them.

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Social contract theory

Social contract theory, which we turn to now, draws together some of the ideas we have been discussing around natural rights, the state of nature, and justice. We have already mentioned the work of Thomas Hobbes and John Locke, and the way in which they understand the nature of humanity (the 'state of nature') and the resulting necessary relationships between people and governments. Swiss-French political philosopher Jean-Jacques Rousseau (1712–78) further captured the idea of how society should be organized in his treatise on the **social contract**. He had a different view of the state of nature, starting from the assumption that people are peaceful and kind, living solitary and uncomplicated lives (Friend 2018). He emphasized the shared endeavour of society and the benefit to us all of the passing on and sharing of knowledge, art, and information. According to Rousseau, it is only when society and communities become more interdependent and need to compete for resources and the ownership of private property becomes possible that strong democratic principles are needed for individual and collective benefit.

Social contract A hypothetical agreement between members of a society and those who govern it that establishes the inter-relationships, rights, and responsibilities on a fair basis.

As we go about our daily lives we aren't necessarily aware of the hypothetical agreement of a social contract, but we may take for granted that (depending in which society we live) we can sell our labour for financial reward and be paid the same as the next person, own property, get married to a partner of our choice, vote for a governing body, face punishment if the law is broken, and have basic levels of health and welfare protected. You may know of societies where some of these cannot be assumed and where that is a point of debate (e.g. in some countries there are restrictions on who can marry whom). On the whole, the social contract becomes visible when some element is contested, or there is a whole new arena for which to establish rules. We might say, for example, that the social contract for social media is very much still in formation, and the allocation of responsibility for, say, children engaging in social media is hotly disputed between governments, social media companies, and parents.

The role of business in social contracts has been a point of debate. Contemporary formulations of social contract theory generally include business in their calculations of this implied

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Table 3.5 Elements of social contracts and implications for business

Key element	Meaning	Implications for business
Voluntary	Citizens voluntarily agree to rule by government, accepting their authority and giving up certain freedoms.	Business is reliant on the infrastructure and regulation that enables and protects their business operations. Participating voluntarily in society according to the social contract gives them a license to operate. In turn they accept restrictions such as paying their taxes and abiding by laws.
Tacit agreement	The agreement to participate in the arrangement is implied, not stated or involving an actual contract to be signed.	While business is the place where we might be most familiar with actual contracts and explicit agreements, these are embedded in unspoken agreements about appropriate behaviour and practice in business dealings.
A hypothetical construction	The social contract is constructed by a theoretical process; there is no actual point of historical creation—it is hypothetical.	Business is at best a minor actor in the theoretical process of social contract theory historically. Arguably, business tends to focus on the here and now, and it perhaps is not surprising that they sometimes fail to meet the requirements of the hypothetical construction.

Source: Derived from Fryer (2015: 131–9)

contract that determines the responsibilities that each of us have relative to society as a whole (Byerly 2013; see, for example, Donaldson and Dunfee's 2002 - integrated social contract theory). **Table 3.5** summarizes some common characteristics of social contract theory and their implications for business. Rights, obligations, and justice bind the members of society, business, and government together to create a good society. This, as you can imagine, is hugely complicated, and Scherer and Palazzo (2007) point out that the right elements of the social contract should not be determined by one theorist, but should be arrived at by more democratic means. This theory continues to evolve and remains a popular approach to understanding ethics (Singer 2018).

A popular approach to determining a just social contract has been proposed by American John Rawls (1921–2002) in his book *A Theory of Justice* (1971). Rawls' starting point for his hypothetical construct is that we should imagine a state of nature in which people are equal, free, and rational, seeking to advance their own interests. He calls this the original position. He suggests that we must imagine that these people are behind a 'veil of ignorance'. That is, people do not know what role or situation they themselves will occupy in society–they could be a cleaner, a ballerina, have a terminal disease, be an indigenous leader, a queen, rich or poor, a child or an accountant–and everything in between. The veil of ignorance, it is assumed, forces people to be fair and impartial in their judgement about how to organize society, because they need to do so from the perspective of all people simultaneously (Boatright 2014). This, as you can imagine, is very complicated, and Rawls' work is full of complex reasoning, not least around the nature of consequentialism and its fit to his theory of justice. For our purposes, most useful is his determination of the two criteria which he believes all rational self-interested people behind a veil of ignorance would arrive at. He distils clearly that society is just when:

1. Each person has an equal right to the most extensive total system of basic liberties compatible with a similar system of liberty for all.

2. Social and economic inequalities are arranged so that they are both:

   (a) To the greatest benefit of the least advantaged—known as the 'difference principle'.
   (b) Attached to offices and positions open to all under conditions of fair equality of opportunity—known as the 'principle of equal opportunity'.

The first criterion is foundational: before allowing for any inequalities, we should ensure that basic freedoms are realized to the same degree for everyone affected by the decision. The first condition thus looks to general human rights and requires their fulfilment before we can proceed to the next step.

The second criterion is based on the assumption that inequalities are unavoidable in a free and competitive society. However, two conditions should be met. First, an arrangement is just when even the one who profits least from it is still better off than they would be without it. This, for example, would suggest that high salaries for corporate leaders might be acceptable providing that employees at the bottom of the corporate hierarchy were also better off as a result—say, because the high salary for the leader led to better corporate performance, which in turn could be translated into higher wages for the least paid. The second condition, again following this example, would be met if not only a privileged few could ascend the corporate ladder, but everyone had a fair chance of doing so, regardless of gender, ethnicity, etc.

Even in this simplified form of Rawls' complex calculus, we can usefully apply these basic principles to various business situations in order to determine 'just' treatment of stakeholders.

If we look to our example in **Ethical Dilemma 3**, the first test would be to ask if all people involved (including the product manager) were in possession of the same basic liberty. Apart from the cultural differences between Europe and Thailand, this is certainly not the case for the children, since they are obviously not allowed to have even a basic education. The second principle could conceivably allow for a more tolerant approach to child labour: the first criterion for inequality would be to ask if the children are better or worse off with the arrangement. One might reasonably argue here that children are often forced into worse things in developing countries than assembling plastic toys. Prostitution, begging, and theft might be other alternatives, suggesting that the children would be better off if you concluded the deal. However, if concluding your deal meant that the children would miss schooling that they otherwise would have had, the arrangement is definitely not benefiting the least well off. The second criterion, though, poses even more of a problem, since without access to education the children do not have a realistic chance of achieving the position that the better-off parties, such as you, have. Hence, they are definitely not 'under conditions of fair equality of opportunity'.

If we extend our view slightly more broadly, Rawls' social contract approach could be used to justify multinationals' exploitation of low wages and poor conditions in less-developed countries—at least under certain conditions. For example, some MNCs have taken it upon themselves to provide education or basic healthcare for their workers in less-developed countries. In this way, MNCs still take advantage of lower wages in these countries, but by providing a 'system of basic liberties compatible with a similar system of liberty for all' and creating 'conditions of fair equality of opportunity' (at least on a local level), one might argue that the resulting inequalities are still 'to the greatest benefit of the least advantaged'. After all, without the manufacturing plant, local people would probably face greater poverty and less opportunity for development than they would with it.

3

THINK THEORY

In Chapter 2, in the context of the extended conceptualization of corporate citizenship, we have discussed the role of companies in the provision of basic entitlements such as water, security, and health. From the perspective of John Rawls' theory of justice, could you imagine a situation in which the involvement of private corporations in the provision of public services (such as the provision of water) could be considered as morally just?

Visit the online resources for a suggested response.

ETHICS ON SCREEN 3 *Baby Driver*

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They call me Baby Driver, and once upon a pair of wheels, I hit the road and I'm gone.

Paul Simon and Art Garfunkel, Baby Driver

Music, car chases, love, and heists are all entangled in this fast-paced movie. It tells the story of a young, very talented driver, somewhat incongruously nicknamed 'Baby', who through some mistakes as a child ends up in debt to a criminal, Doc. Doc puts together gangs for each 'job' but sees Baby as his lucky mascot, and won't let him find a way out of this dubious lifestyle because Baby, played by Ansel Elgort, is an outstanding getaway driver. This makes for some fantastic cinematography and the rich soundtrack of music is clearly crucial to the set-up. Director Edgar Wright uses Baby's hearing problems and tinnitus (as a result of an accident when he was young in which his parents were killed) as a device to bring in the music—Baby always listens to music on his iPod. This seems to be a point of fascination for many of those he comes into contact with.

In addition to being a thrilling film full of hope and horror, the cast of characters and the contrasting worlds of normal life and the underground violent criminals make for some great opportunities to reflect on ethics. The social contract evident in the 'normal' life for Baby of working for a pizza delivery company, falling for Debora (a waitress in a diner, played by Lily James), and looking after his disabled foster-father is one of which an ethic of care supporter might be proud, though their lives don't look to be tremendously fulfilling or well rewarded. Nevertheless, in some way we can see that these are good people, doing their best by each other.

In the criminal world everyone is an egoist out for themselves and—with some justification—suspicious of each other. Hobbes' idea of a war of all against all could not be more apt, and—spoiler alert—in the end all the criminals pretty much kill each other, illustrating nicely the idea that egoism is internally inconsistent. Given that violence and murder are woven throughout the film, there isn't a great deal of hope that the people concerned are the most virtuous ever, nor that they are followers of Kant's higher-level understanding of duty, though in the end Baby does turn himself in to be held to account for his crimes; but Baby and Debora show virtue through great courage and consideration for others, even perversely when they are stealing cars.

There are some fantastically bad characters in *Baby Driver*—Jamie Foxx and Jon Hamm playing Bats and Buddy probably win the competition for the most evil and deranged. It is hard to think of a vice which Bats and Buddy don't display at some point, and a struggle to think of them as exhibiting any virtues. This is a great film and the cast of characters and strange situations, while not likely to be the kind we come across in business life, provide a rich context for thinking about different ethical perspectives.

SOURCE

Collin, R. 2017. Baby Driver review: Edgar Wright's infectious car-chase thriller will make you believe in magic, *Daily Telegraph*. 30 June. https://www.telegraph.co.uk/films/0/baby-driver-review-edgar-wrights-infectious-car-chase-thriller.

Visit the online resources for web links to useful sources of information related to this film.

LIMITS OF WESTERN MODERNIST THEORIES

If we look back to these major Western modernist ethical theories, we could argue that they present quite a comprehensive view of humans and society, and based on various assumptions, they come up with actionable principles to answer ethical questions. In presenting such a closed 'model' of the world, these theories have the substantial advantage that they claim to provide a solution to every possible situation. However, they have the big disadvantage that their view of the world only presents one aspect of human life, while reality normally tends to be rather more complex.

In the previous discussions we have outlined some of the main benefits and drawbacks of each of these main ethical theories. However, the very approach of *all* Western modernist theories is open to criticism. As largely absolutist theories based on objective reason, a number of drawbacks for approaching business ethics problems through theories of this sort can be identified.

The main criticisms of Western modernist ethical theories are:

- **Too abstract.** Stark (1994) suggests that traditional ethical theories are too theoretical and impractical for the pragmatic day-to-day concerns of managers. In real life, managers are unlikely to apply abstract principles derived from long-dead philosophers when dealing with the concrete problems of business. Normative theories 'lack power, persuasiveness and effectiveness' because they do not deal enough with the question of how businesses might actually operate in practice (Brenkert 2010: 709).
- **Too narrow.** Each theory tends to focus on one aspect of morality at the cost of all the rest of morality. Why choose consequences, duties, justice, *or* rights when *all* are important?
- **Too objective and elitist.** Parker (1998) suggests that ethical theories attempt to occupy a rarefied high ground, such that those specialist ethicists and philosophers who know and

understand the theories can pronounce on the right and wrong of other people without any subjective experience of the situation with which they are faced. Just because Crane, Matten, Glozer, and Spence know the difference between utilitarianism and justice, why should that mean that we can decide for you whether a product manager in Thailand is doing the right thing?

- **Too impersonal.** By focusing on abstract principles, traditional ethical theories do not take account of the personal bonds and relationships that shape our thoughts and feelings about right and wrong (Held 2006).
- **Too rational and codified.** Ethical theories try to distil right and wrong down to codified rational rules of behaviour. Bauman (1993) contends that this suppresses our moral autonomy and denigrates the importance of our moral feelings and emotions, all of which he claims are crucial for acting morally towards others. Rorty (2006) suggests that what we need is better moral imagination and ethical stories rather than moral reasoning.
- **Too imperialist.** Why assume that ethical theories from the West are suitable for business people everywhere else in the world (Naude 2017)? What about the ethical teachings of classical Asian or traditional African philosophy, for instance—do these not also have something useful to say about modern-day business ethics?

Clearly, then, there are certain problems associated with these Western modernist theories (see also Jones et al. 2005). Many of these stem from their emphasis on the more absolutist approach to ethical theory. Some point instead to alternative ethical theories that emphasize greater flexibility, as well as including consideration of decision-makers, their context, and their relations with others, as opposed to just abstract universal principles. Although the theories we are going to discuss now are also open to criticism, they help to enrich the choice of perspectives we could take on ethical issues in business.

ALTERNATIVE PERSPECTIVES ON ETHICAL THEORY

These alternative ethical theories to the Western modernist theories appear much less commonly in business ethics texts, yet we would suggest that they offer an important alternative perspective that should not be ignored, and which, we would suspect, may become increasingly more influential in the business ethics literature. We shall be looking at four main alternative ethical theories, summarized in part two of our table on normative ethical theories, **Table 3.6**:

- Ethical approaches based on character and integrity (virtue ethics)
- Ethical approaches based on relationships and responsibility (ethic of care)
- Ethical approaches arrived at through a deliberative process (discourse ethics)
- Ethical approaches based on empathy and moral impulse (postmodern ethics)

ETHICAL APPROACHES BASED ON CHARACTER AND INTEGRITY: VIRTUE ETHICS

Up to now, we have chiefly looked at right and wrong according to the ethics of particular *actions*. However, much attention in recent years has focused on approaches that start from a different perspective: rather than checking every single action according to its outcomes or its

Table 3.6 Normative theories in business ethics: part two

	Virtue ethics	Ethic of care	Discourse ethics	Postmodern ethics
Contributors	Aristotle Alasdair MacIntyre	Carol Gilligan Virginia Held	Jürgen Habermas	Zygmunt Bauman
Key works	*Nicomachean Ethics* (A) *After Virtue* (AM)	*In a Different Voice* (CG) *The Ethics of Care: Personal, Political and Global* (VH)	*Moral Consciousness and Communicative Action* (JH)	*Postmodern Ethics* (ZB)
Focus	Character	Relationships	Deliberative process	Moral impulse
Guiding tenets	Strive to be a good person	Relationships and associated responsibilities inform ethics	Conflict resolution requires honest open exchange and discussion	Ethics is context and individual specific
Concept of human beings	Humans can learn virtuous traits to lead a good life	Humans are relational and interdependent	Humans are rational individuals who can resolve conflicts by a process of argumentation	Humans have an innate internal guide to ethics
Type	Virtue	Feminist	Procedural	Poststructuralist

underlying principles, these approaches look to the character or integrity of the *decision-maker.* Focusing on the integrity of individuals clearly has a strong resonance in a business context, especially when considering the ethics of professionals, such as doctors, lawyers, and accountants, who rely on their moral probity for maintaining legitimacy and gaining clients. Attention to character as a foundation for business ethics has also arisen in non-Western contexts, such as Africa, where it has been argued that a humanistic approach is more easily acceptable in African culture than rules-based approaches (Gichure 2006). Similarly, Woods and Lamond (2011) contend that 'refinement of one's character' is central to Confucianism, with its emphasis on cultivating virtues such as benevolence (ren), righteousness (yi), ritual propriety (li), wisdom (zhi), trustworthiness (xin), and filial piety (xiao).

Character and integrity-based approaches to business ethics have mainly drawn on one of the earliest ethical theories, that of **virtue ethics**. This is decidedly not a contemporary theory (which the other alternative theories tend to be), being over 2000 years old and having its origins in ancient Greece and Aristotle's writings on ethics, especially his *Nicomachean Ethics.* In virtue ethics, the main message is that 'good actions come from good persons', where good persons are defined in terms of certain traits or characteristics, namely 'virtues'.

Virtue ethics An approach to ethics which focuses on the idea that possessing excellent traits of character, or virtues, is required in order to be a good person. A virtuous person is a morally good and wise person.

Virtues are ingrained in the individual, not just arrived at by a whim, but reflective of the person's entire disposition or way of being (Hursthouse and Pettigrove 2016). Which traits are virtuous, their opposite vices and otherwise has been the subject of debate for millennia—and continues to this day. Virtues can be differentiated into *intellectual virtues*—practical 'wisdom' (*phronesis*) being the most prominent one—and *moral virtues*, which comprise a long list of possible characteristics such as temperance, courage, justice, honesty, friendship, mercy, loyalty, patience, etc. All these virtues are manifested in actions that are a habitual pattern of behaviour of the virtuous person, rather than just occurring once or in one-off decisions. The idea of balance is important here, so you can have too much or too little of these characteristics. We might think of them as on a continuum—blind loyalty and disloyalty, for example, are the extremes of the virtue of loyalty, rashness and cowardice are the extremes of courage. As these traits are not ours by birth, we acquire them by learning and, most notably in business, by being in relationships with others in a community (MacIntyre 1967).

3

Central to the ethics of virtue is the notion of a 'good life'. For Aristotle, this consists of *eudemonia*, variously defined as flourishing, well-being, and happiness (Fryer 2015: 173). This most notably includes virtuous behaviour as an integral part of the good life: a happy business person would not only be one who achieves business goals, but one who does so while at the same time savouring the pleasures of a virtuous manner of achieving their success. In a business context, the 'good life' means far more than being a profitable company. Virtue ethics takes a more holistic view by also looking at the way this profit is achieved, and most notably by claiming that economic success is just one part of the good business life—with satisfaction of employees, good relations among all members of the company, and harmonious relations with all stakeholders being equally important (Collier 1995). Indeed, business itself is considered by some to be an essential part of the good life (Solomon 1992).

From this point of view, the virtuous product manager in **Ethical Dilemma 3** could take in different perspectives, depending on the community from which the notion of a virtuous manager was derived. On the one hand, you could be compassionate and considerate with the situation of the suppliers. Taking into account their need for work and money, as well as the children's need for education, perhaps you would try to do business with them while, at the same time, assuming responsibility for the children's education. For instance, you could support a local school, or pay sufficiently high wages to allow the family to send their children to school, rather than making use of them as cheap labour. On the other hand, you might also think that the 'good life' in rural Thailand might in fact consist of an entire family working happily together and that Western concepts of education, professionalization, and efficiency are a different concept of a 'good life' that might not be appropriate to the Thai approach to life. Typically, though, virtue ethics in a business context such as this would suggest that the solution to many of the problems faced by managers are located in the culture and tradition of the relevant community of practice. The product manager should determine what a 'virtuous' product manager would do from their professional code of conduct, from virtuous role models, or from professional training.

It does not take long to see what the main drawback of virtue ethics is: how do we make sense of a seemingly good person doing bad things, like Baby in **Ethics on Screen 3**? What do we do if virtues conflict? How do we determine which community ideal of virtues to consult? And, in the absence of a clear code of conduct from our relevant communities, how do we translate ideas of virtuous traits into ethical action? While virtue ethics is often transferred unquestioningly from the individual to the organization, careful consideration is needed to reflect on whether this can be done meaningfully and whether we can think of a business culture as equivalent to an individual character (see Moore 2017 for full discussion of this and its implications). In **Ethics** in Action 3.2 we see the example of Nudie Jeans, which seeks to promote human rights, fair labour practices, environmental sustainability, and ethical business practice; this small business might be considered to be virtuous, reflecting the virtues of its CEO. Such an example reminds us that right and wrong cannot simply be resolved by applying a specific rule or principle, but that individuals within organizations need to cultivate our knowledge and judgement on ethical matters over time through experience and participation (Nielsen 2006).

ETHICAL APPROACHES BASED ON RELATIONSHIPS AND RESPONSIBILITY: ETHIC OF CARE

This eschewal of a principle-based approach to ethical problems has also been taken up by other alternative frameworks, which focus not on character but on relationships. One notable example of this approach is feminist ethics, which starts from the assumption that men and women have fairly different attitudes towards organizing social life, and that women's agency and power is undermined by tradition ethical approaches (Borgerson 2018).[9] One instance of this, and there are many approaches to feminist ethics, is an ethic of care. From Carol Gilligan's (1982) observations on the moral development of boys and girls in her classic work *In a Different Voice*, the point here is that something important is missing if any one type of voice is privileged and another consistently excluded.

In addressing ethical problems, traditional ethical theory has looked for rules and principles, elevating the justice perspective (Held 2006). This approach has been almost exclusively established and promulgated by male philosophers, such as we have discussed here, including Kant, Hobbes, Locke, Bentham, Aristotle, and Mill. While in our analysis we have sought to include a range of perspectives, there is no getting away from the fact that none of the dominant business ethics theories, apart from the ones we discuss in this section, are originated and led by women. Some will dismiss this as being because women did not have access to education and publishing opportunities in the Enlightenment era or ancient Greece. This is true, but women were still half of the population and yet the story of moral philosophy has been utterly dominated by the story of men's moral philosophy (Tong and Williams 2018), and the arena of business ethics similarly so (Spence 2016b).

Deeper reading of classic works does show some wider awareness among these great thinkers, though it rarely sees the light of day within business ethics—John Stuart Mill campaigned for women's suffrage in his political life, and Jean-Jacques Rousseau tried to develop the idea of feminine virtues. But there are also some notable dismissals—Aristotle's flourishing life excluded women and slaves of both genders; Kant felt that women were morally deficient. There are certainly women philosophers of the times, but their own voices continue to struggle to be heard in the mainstream. These include, but are not limited to, Hypatia of Alexandria, Harriet Taylor Mill (yes, John Stuart Mill's wife), Mary Wollstonecraft (who wrote *Vindications of the Rights of Women* in 1792), Elizabeth Anscombe (credited with the first use of 'consequentialism'), and Hannah Arendt (who coined the phrase 'the banality of evil').

Thankfully, the reliance that moral philosophy and, by extension, business ethics has had on a small group of dead white men is refreshed somewhat by the much wider variety of contemporary philosophers. Here we look to feminist ethics, and a particular example that has gained some momentum in business ethics (though it is by no means the only approach), of an ethic of care.

Ethics in Action 3.2 The naked truth about Nudie Jeans Co.

Simon Oldham

Nudie Jeans Co. is a small Swedish fashion business founded in 2001, specializing in denim products, notably its range of jeans, as well as jackets and accessories. However, what differentiates Nudie from many other small businesses is its championing, and embedding, of a small number of key values within its business. These values are articulated and publicized through two memorable taglines—'The Naked Truth About Denim' and 'A High-Quality Product Made In A Fair Way'. The values enshrined in these taglines of 'honesty', 'quality', and 'equality' permeate Nudie's entire business strategy, operations, and behaviours. Specifically, the business aims to promote human rights, fair labour practices, environmental sustainability, and ethical business practice throughout its operations. For example, the company only uses 100% Fairtrade organic cotton denim, which reduces the water, energy, and carbon impact of their products, publishes extensive information of its supply chain, including the location of its suppliers and their latest audit, as well as offering a free repair service for their products and recycling products wherever it can.

This doesn't mean that Nudie has had to sacrifice commercial success in the pursuit of its values. As of 2017, the company's products were sold in over 50 countries, its iconic repair shops operated in a number of key international locations including London, New York, and Tokyo, and turnover was over €46 million with just under 160 employees directly employed by the company.

But how and why has Nudie chosen to embed and enact these values to such a considerable extent? Arguably, the size of the company has greatly influenced Nudie's values as, according to CEO Palle Stenberg, its values come directly from the personal values of the three company owners, all of whom hold key positions within the company, including CEO and chairman of the board. As Stenberg puts it, 'Those ethics have always been part of us . . . The look and the fit is important—otherwise nobody buys them. But the social responsibility and taking care of nature was also there from day one. We wanted to know that everyone who worked with us would go to sleep at night having an OK life' (*Guardian* 2014).

The concern and care Nudie has for its employees runs right through the business, from those employees directly employed by the company to individuals employed within Nudie's supply chain and outsourced manufacturing operations. Such concern was exemplified in 2010 when, during a visit to a supplier located in India, it became clear to Nudie that wages paid at the manufacturing plant fell below the level of a true living wage. Despite the subcontracting company discussing concerns relating to the living wage with several companies with which it worked, notably a number of multinational enterprises, Nudie was the only company to address such concerns. Remarkably, as one representative from the subcontracting partner noted, 'it is like talking to someone at Amnesty when to talking to her' [one of the owners] (Egels-Zanden 2017: 105). Specifically, Nudie embarked on a pioneering project to firstly calculate a living wage and then began the introduction of the wage to those individuals employed in the manufacture of their products within its Indian subcontractor. However, alongside this, Nudie also made retrospective payments for products historically manufactured within the subcontractor, despite the cost incurred and the impact on company profit margins.

Overall, Nudie provides a clear example of a value-orientated business, well demonstrated by its attainment of a number of sustainability certifications, as well as membership of business ethics groups, networks, and coalitions, in tandem with the awards it has garnered for its business ethics and Corporate Social Responsibility engagement. For example, the business won the Observer Sustainable Style Award in 2015, as well as winning a sustainability prize in 2016 and becoming a member of the Fair Wear Foundation living wage incubator in 2017. Nevertheless, Nudie continually critically examines and evaluates whether its practices live up to its core values, and accordingly it regularly measures its environmental and social impacts and sets ambitious corporate social responsibility targets.

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QUESTION

What ethics do you think drive Nudie Jeans—which ethical theory presented in Chapter 3 do you think relates most closely to the approach taken? Do you consider Nudie Jeans to be a virtuous organization?

Visit the online resources for web links to useful sources of further information.

Before proceeding, the ethic of care has come under some criticism for being based on 'gender', 'caring', or other over-simplified reductions of a feminist perspective. Janet Borgerson has argued that in doing business ethics, we should look beyond the version of care ethics that focuses on stereotypical feminine traits and behaviours (Borgerson 2007, 2018). She finds a 'harmony' between business ethics and a broader version of care ethics that focuses on relationships and responsibility not defined by feminine gender roles. This broadens our understanding of care ethics and increases its potential impact in business ethics research and practice.

While we acknowledge that the association of an ethic of care originally with caring professions, such as nursing, childcare, or social work, has not helped to break away from the orientation of gender, women, and care, business ethics researchers have used an ethic of care effectively in a wide range of different scenarios (see André and Pache (2016) on social enterprises; Simola on moral courage (2015); Spence (2016a) on small business social responsibility). Such research suggests that focus is shifting to the rich value of these alternative perspectives (for a more detailed discussion on the contribution of feminist ethics see Grosser, Moon, and Nelson 2017; McCarthy and Moon 2018).

Ethic of care An approach to ethics which emphasizes our interdependency with those with whom we have important relationships and acknowledges a role for emotions as well as rationality.

Carol Gilligan's work (1982) has been taken up by others and developed into a distinct moral theory by protagonists such as Nel Noddings, Sara Ruddick, Joan Tronto, and Virginia Held. Held's (2006) work is particularly useful for laying out the basis of the approach and its emphasis on the relationships we have and hold important. Rather than emphasize the need for rationality and autonomy, the ethic of care acknowledges and accepts that:

- we have an emotional commitment and willingness to act on behalf of those with whom we have a significant relationship;

- we are not autonomous;
- we are bound by circumstance, relations, and position;
- we have restricted information and choices; and
- we are in positions of unequal power.

This of course leads to quite a stark contrast in what ethical behaviour entails, compared to other theories which have such dramatically different starting points. It means that in **Ethics on Screen 3**, we understand the justification for Baby trying to protect his girlfriend and his stepfather by whatever means possible. **Table 3.7** outlines the main resulting ethical concerns of an ethic of care.

Moral problems are conflicts of responsibilities in relationships rather than conflicts of rights between individuals and therefore can only be solved by personal, subjective assessment that particularly stresses the importance of emotion, intuition, and feeling. While traditional approaches would focus on 'fair' results, feminist perspectives stress social processes and particularly aim at the achievement of harmony, empathy, and integration with regard to ethical issues. The main goal is to avoid harm and maintain healthy relationships.

THINK THEORY

Think about your experiences in class or work. Have you experienced different feelings of responsibility to your friends than strangers? How might this play out in a business context? What role do you think emotions have in your own ethical decision-making?

Visit the online resources for a suggested response.

Table 3.7 Elements of an ethic of care

Feature	Reasoning
Meeting the needs of those for whom we take responsibility	Caring for a child at the fore-front of moral concerns. Recognition that human beings are dependent on others, especially as children, and for the vulnerable and elderly. The claims of particular others can be compelling regardless of universal principles.
Valuing emotions	Sympathy, empathy, sensitivity, and responsiveness are seen as the kinds of moral emotions that are valuable for implementing reason and to ascertain what morality recommends.
Accepting impartiality	The compelling moral claim of the particular other may be valid even when it conflicts with the requirement usually made by moral theories that moral judgements be universalizable.
Including the private sphere as a territory for morality	Focus of dominant theories has been on public life while overlooking the private domains of family and friendship, where women are often economically dependent and subject to a highly inequitable division of labour.
Acknowledging that people are relational and interdependent	People start out as morally relational and interdependent. This contrasts with traditional conceptualizations of fully autonomous and rational individual agents.

Source: Derived from Held (2006: 10–13)

This focus on relationships and responsibilities is also evident in some non-Western ethical frameworks. For example, in *Buddhist Approaches to Business Ethics*, as Gould (1995) points out, there is an emphasis on considering 'everyone as our father, mother, brother, or sister', blaming yourself rather than others, and focusing on personal growth and fulfilment as basic tenets of ethical decision-making. Ultimately, the Buddhist perspective highlights the interconnectedness and web of relationships in which ethical decision-making takes place. Similarly, there is a focus on relationships as the basis for ethical conduct in *Confucian Approaches to Business Ethics* (Romar 2004). As Ip (2009) suggests, 'social relationships and their harmony are of utmost importance' in Confucian business ethics.

Applying a relationships approach to the case in **Ethical Dilemma 3** would, in a certain sense, require far more knowledge about the case than we can acquire from just reading about it. A relationships-oriented perspective would cause the product manager to try to get a closer view of the family involved and see if the children are really happy in this situation. It would also involve a better understanding of the social and economic constraints that cause the family to embark on this particular production pattern. Ironically, a feminist perspective would not necessarily argue categorically against any involvement of children in the process, as long as the inter-familiar relationships are functioning well and the children are not forced, exploited, or compelled to work beyond their physical capacities. As the latter conditions might not be fulfilled, relational approaches would probably tend to object to child labour as well—however, not so very much because it violates certain (Western) principles, but because of the likely distress and suffering of the children, and their lack of agency and power. Furthermore, feminist theories would also look at the situation of the other actors involved and scrutinize, for example, the question of how the money earned by the assembling of toys is spent and how the income in the family is distributed, etc.

ETHICAL APPROACHES ARRIVED AT THROUGH A DELIBERATIVE PROCESS: DISCOURSE ETHICS

All of the theoretical approaches we have discussed so far start from a certain perspective on humans, on the values or goals governing their decisions, and a few other assumptions that in essence are all normative in nature. By normative, remember that we mean prescriptions of right and wrong action. However, it is worth taking a step back for a minute and asking if the starting point of prescriptions is, in fact, a very useful way to solve ethical conflicts in business. After all, we cannot take it for granted that everybody shares, for instance, the notion of humans being hedonistic, or of rights or feminist values being the most appropriate ones to address ethical problems in business. This is already problematic in a group of relatively homogeneous people; say, the marketing department of a Swedish furniture company. But it gets even more complicated if there is a meeting of all marketing directors of the company worldwide, since this could conceivably include participants as diverse as evangelical fundamentalists from the US, atheists from Russia, Muslims from Egypt, and Buddhists from Japan. In these situations, the most significant problems arise from the diverging normative perspectives that the different people might bring to the table.

It is at this point that theoretical approaches which look for a new ethical resolution might come into the picture. These approaches seek ethical behaviour, not in applying ethical principles, but in generating norms through a process of communication and deliberation that are appropriate and acceptable to those who need to resolve a particular problem. There are various forms that such practices could take, including, for instance, the traditional African institution of the palaver, where the relevant parties would be brought together under a 'palaver tree' and allowed to speak freely, in order to generate appropriate principles for decision-making (Gichure 2006). However, probably the best-known approach to norm generation in business ethics is that of **discourse ethics.**

Discourse ethics An approach that aims to solve ethical conflicts through a deliberative process of norm generation including rational reflection and open communication on the real-life experience of all relevant participants.

3

The philosophical underpinning of discourse ethics comes from the work of German philosopher Jürgen Habermas on communicative action (1983). According to this perspective, the ethically correct thing to do cannot be justified by rational arguments, but has to be generated by detailed and open debate (called 'argumentation') and applied to solve ethical conflicts on a day-to-day basis (Preuss 1999). Horst Steinmann and Albert Löhr (1994), who are among the main proponents of a discourse approach to business ethics, argue that ethical reflection has to start from real-life experiences (rather than belief systems, which could be too diverse). They contend that the ultimate goal of ethical issues in business should be the *peaceful settlement of conflicts.*

With this goal in mind, different parties in a conflict—say, a business and its stakeholders—should meet and engage in a discourse about the settlement of the conflict, arrive at a new consensus, and ultimately provide a solution that is acceptable to all. This 'ideal discourse', as it is usually called, is more than an occasional chat or business meeting; it has to answer certain philosophical criteria, such as impartiality, non-persuasiveness, non-coercion, and expertise of the participants (Habermas 1983). This includes the injunction that those who are more powerful should refrain from imposing their values on others and using their power to solve the ethical conflict according to their own views. Such an approach should ideally lead to the emergence of a new solution for addressing the problem—beyond just a compromise, or one party convincing the other that they are right—that is an expression of the consensus of all the represented parties.

Discourse ethics, then, is more a recipe for practical conflict resolution than an ethical theory comparable to those discussed above. In simple terms, it assumes that ethical business should be rooted in stakeholder dialogue based on equal participation and conducted without domination or coercion by any party. An ethically correct decision is one that has been reached in the right way, with the agreement of all, irrespective of what the actual decision itself is.

There are understandably certain practical limits to this approach, especially the considerable amount of time it involves, its fairly optimistic assumptions about rational human behaviour, and the avoidance of self-interested, strategic engagement in dialogue (Noland and Phillips 2010). Nevertheless, discourse ethics has been the underlying concept for the settlement of numerous disputes about corporate environmental impacts, in which various stakeholders with completely divergent value systems have come to common decisions on certain controversial projects (Renn et al. 1995). It has also been proposed as a useful yardstick for assessing corporate accountability (Scherer and Palazzo 2011) as well as potentially providing an ethical basis for web 2.0 approaches that focus on open access and inclusive decision-making (Mingers and Walsham 2010).

If we apply a norm-generating approach such as discourse ethics to **Ethical Dilemma 3**, it lies in the nature of the concept that we are not able to say if this would influence in any way the resulting decision of the parties involved. It would, however, have much to say about the right procedure to be adopted. That is, it would suggest that all parties involved, starting with the Thai trading company, the confectionery manufacturer, the parents, the children, but potentially also the consumers in Europe, should meet together to enter a 'norm-generating' discourse on the topic. Apart from the fact that this shows some of the practical difficulties of the concept, the idea does open the way to a solution that could be closest to the interests of all parties involved.

ETHICAL APPROACHES BASED ON EMPATHY AND MORAL IMPULSE: POSTMODERN ETHICS

Finally, there is a school of thought in business ethics that takes the rejection of normative approaches yet further. Often referred to as **postmodern ethics**, this school of thought fundamentally questions the link between rationality and morality that is inherent in all the Western modernist ethical theories discussed earlier in this chapter. These traditional theories have their origins in modernism, which emerged roughly during the eighteenth-century Enlightenment era. 'Modern' thinkers strove for a rational, scientific explanation of the world and aimed at comprehensive, inclusive, theoretically coherent theories to explain nature, man, and society. In the area of the social sciences, one of the results of this was the development of various theories, commonly in the form of certain '-isms', such as liberalism, communism, socialism, rationalism, capitalism, etc. Postmodern thinkers contend that these comprehensive theories, these 'grand narratives' of society (Lyotard 1984), are too ambitious, optimistic, and reductionist, ultimately failing to explain the complex reality of human existence.

Postmodern ethics An approach that locates morality beyond the sphere of rationality in an emotional 'moral impulse' towards others. It encourages one to question everyday practices and rules, and to listen to one's emotions, inner convictions, and 'gut feelings' about what is right and wrong.

While postmodernism tends to embrace a whole range of theoretical propositions and arguments, postmodern thinkers have been particularly influential in ethics, since they identify the specific danger of rational approaches to morality. Zygmunt Bauman (1993), one of the best-known proponents of postmodern ethics, argues that by codifying morality within specific rules and codes of behaviour (as, for example, exemplified in bureaucratic organizations), rational approaches deny the real source of morality, which is rooted in a 'moral impulse' towards others. This is a subjective, emotional conviction that humans have about right and wrong, based on their experiences, sentiments, and instincts. Moral judgement, then, is a gut feeling more than anything else, but this is inevitably nullified when people enter organizations and become distanced from the people who are actually going to experience the consequences of their decisions, such as consumers, investors, suppliers, and others.

Ultimately, postmodernists are rather sceptical about the entire venture of business ethics (ten Bos and Willmott 2001), since ethical theories aim to find 'rules and principles that determine right or wrong' (our definition in Chapter 1). Postmodernists tend to suggest otherwise, such that 'the foolproof—universal and unshakably founded—ethical code will never be found' (Bauman 1993). A postmodern perspective on business ethics does not then provide us with any rule or principle, not even a procedure for ethical decision-making, such as discourse ethics. However, postmodern ethics have quite significant implications for ethical decisions in business.[10] Gustafson (2000: 21), for example, suggests that postmodern business ethics emphasizes the following:

- **Holistic approach.** As morality is an inner conviction of individual actors, there is no separation between the private and professional realm. Postmodernists argue that modernist theories of ethical behaviour lead to an abstract and distant view of ethical issues that ultimately causes actors to follow different standards in their professional and private lives. For business organizations, such a view of ethical decision-making could unleash a quite subversive potential to business ethics, as it might question the beliefs and practices held by the organization (Bauman 1993).
- **Practices rather than principles.** As morality is not based on rational theories, ethical reasoning is not embodied in principles and rules. Rather, it is based on narratives of experience, metaphors to explain inner convictions, and practices that help individuals understand and overcome the unquestioned rules that constrain or dominate them (Crane et al. 2008; Weiskopf and Willmott 2013).
- **'Think local, act local'.** Modernist theories and '-isms' are aimed at general principles that are applicable to each and every situation. Postmodernists think that ethical reasoning has to be far more modest: it would only be realistic to expect ethics to come up with local rules applicable to specific issues and situations. Rather than finding one principle for multiple situations, business ethics focuses on deciding one issue after another. This does not mean that postmodernists do not take their decisions seriously and could decide on an issue in one way today and in another way tomorrow. It rather highlights the fact that no one situation is the same, and that different actors, power relations, cultural antecedents, and emotional contexts might lead to different judgements in situations that could, in the abstract, be regarded as being in the same 'class' and subject to the same 'principles'.
- **Preliminary character.** Postmodern ethicists are often seen as more pessimistic than their modern counterparts. They know that ethical decisions are subject to non-rational processes, and thus less controllable and predictable. Ethical reasoning therefore is a constant learning process, an ongoing struggle for practices that have a better fit, or for reasoning that just makes more sense and works better than the approaches tried out so far.

From the nature of a postmodern view on business ethics, it might already be clear that the notion of discussing the abstract case of **Ethical Dilemma 3** is a nearly impossible venture. Indeed, postmodernist thinkers are sceptical of the vignette or hypothetical case method of learning about business ethics, preferring instead to engender moral commitment to others through real-life encounters (McPhail 2001). We would at best only be able to come up with some form of judgement if we travelled to Thailand, visited the site, talked to the people, and emphatically immersed ourselves in the real-life situation. We would then have a 'moral impulse' about what to feel about the situation and could come up with what we would regard as the moral way to decide in this situation.

However, the example does gives us a few indications, and as good postmodernists, we would be well aware of the limitations of our present view on the issue and would try to suggest a preliminary view of what we would do in the situation of the product manager. We might, for example, at least suggest that we as the product manager have made the right first move in actually going to the site of production and facing those who will be affected by our decisions rather than staying at home and simply dismissing them as faceless 'suppliers'. We might also point to our attempt to make our own autonomous decision based on the situation faced in the specific culture of Thailand, rather than relying on a corporate code of ethics, particularly one that is intended to have universal application. However, postmodernists would also question the extent to which you as the product manager are so steeped in a corporate mentality that you immediately think in terms of costs and bonuses, rather than people and their lives.

Ultimately, it is of the nature of postmodernism that we are not able to finally decide on the situation for the manager, since we lack the contextual nuances of the situation and we are not aware of the extent to which a genuine 'moral impulse' is possible in this context.

SUMMARY

The array of ethical theories discussed in this chapter provides us with a rich source of assistance in making morally informed decisions. However, the discussion of our case, **Ethical Dilemma 3**, has brought to the surface a variety of different views and normative implications depending on the theoretical approach that has been chosen. Sometimes these views provide widely contradictory results.

As we have indicated earlier in the chapter, we will not suggest one theory or one approach as the best or true view of a moral dilemma. **Figure 3.1** shows this approach, where ethical theory is seen as a kind of 'lens' through which to focus ethical decision-making on a specific consideration, such as rights, duties, discourse, or whatever.

Figure 3.1 A typical perspective on the value of ethical theory for solving ethical dilemmas in business

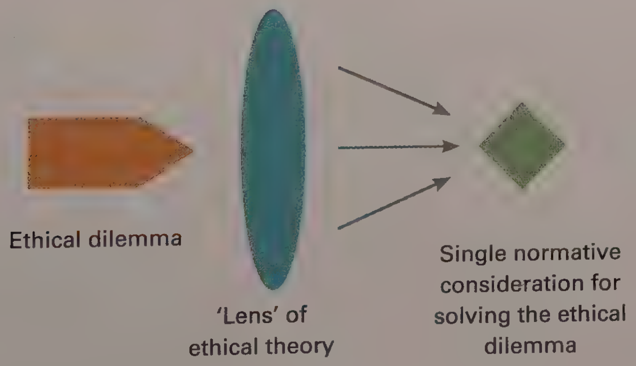
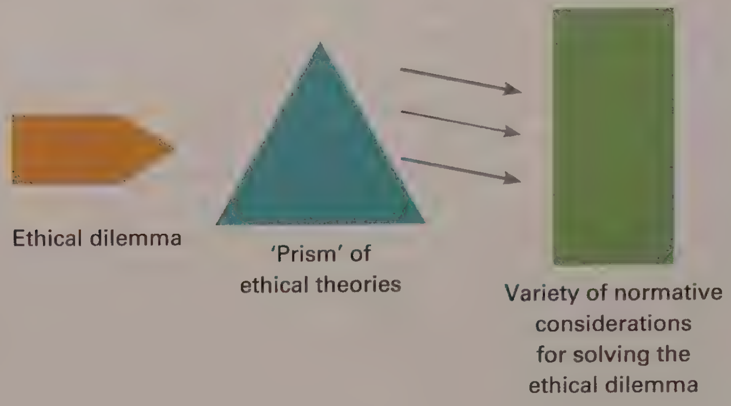


Figure 3.2 A pluralistic perspective on the value of ethical theories for solving ethical dilemmas in business



Alternatively, we suggest that all of the theoretical approaches we have discussed throw light on the problem from different angles and thus work in a complementary rather than a mutually excluding fashion. **Figure 3.2** elucidates the pluralist role of ethical theories: by viewing an ethical problem through the 'prism' of ethical theories, we are provided with a variety of considerations pertinent to the moral assessment of the matter at hand. Based on this 'spectrum' of views, the business actor is able to fully comprehend the problem, its issues and dilemmas, and its possible solutions and justifications. It is also important to recognize that many of these theories are influenced by each other, and say similar things in different ways. One might, for example, find discussion of favourable virtues in each of the theories. We have emphasized the differences in this chapter, in order to demonstrate the contribution each can make.

By using theory in this non-dogmatic way we take up the notion of pluralism, discussed earlier in the chapter, to propose that the best way of approaching ethical problems in business is through a *pluralist analysis*. This acknowledges that real business decisions normally involve multiple actors with a variety of ethical views and convictions that feed into the decision. Ethical theories help to articulate these views and a pluralist analysis paves the way to an intelligent and considered response to the problem. Furthermore, as we have already discussed in the context of contemporary and alternative theories, ethical decision-making does not rely only on rational considerations. Moral matters embrace human beings in the totality of their reason, emotion, bodily existence, social embeddedness, and past experiences, to name just a few. Rather than looking only for universal principles to dogmatically apply to every situation, we suggest a pragmatic approach that allows for all these aspects to play a role in business ethics.

Table 3.8 provides a summary of the main considerations raised by each theory discussed in this chapter. Although we would draw back from advocating something akin to a 'ten-point plan' for ethical decision-making, you might want to use this table as a checklist of potential ways of addressing business ethics problems and dilemmas. Part of the process is deciding which theories are most relevant and useful in each case and why.

Table 3.8 Considerations in making ethical decisions: summary of key insights from ethical theories

Consideration	Typical question you might ask yourself	Theory
One's own interests	Is this really in my, or my organization's, best long-term interests? Would it be acceptable and expected for me to think only of the consequences to myself in this situation?	Egoism
Social consequences	If I consider all of the possible consequences of my actions, for everyone that is affected, will we be better or worse off overall? How likely are these consequences and how significant are they?	Utilitarianism
Duties to others	Who do I have obligations to in this situation? What would happen if everybody acted in the same way as me? Am I treating people only to get what I want for myself (or my organization) or am I thinking also of what they might want too?	Ethics of duty
Entitlements of others	Whose rights do I need to consider here? Am I respecting fundamental human rights and people's need for dignity?	Ethics of rights
Fairness	Am I treating everyone fairly here? Have processes been set up to allow everyone an equal chance? Are there major disparities between the 'winners' and 'losers' that could be avoided?	Theories of justice
Character and integrity	Am I acting with integrity here? What would a decent, honest person do in the same situation?	Virtue ethics
Relationships and responsibility	How do (or would) the other affected parties feel in this situation? Can I avoid doing harm to others and ensure their agency and power? Which solution is most likely to preserve healthy and harmonious relationships among those involved?	Ethic of care
Deliberative process	What norms can we work out together through open communication and discussion to provide a mutually acceptable solution to this problem? How can we achieve a peaceful settlement of this conflict that avoids 'railroading' by the most powerful player?	Discourse ethics
Empathy and moral impulse	Am I just simply going along with the usual practice here, or slavishly following the organization's code, without questioning whether it really feels right to me? How can I get closer to those likely to be affected by my decision? What do my emotions or gut feelings tell me once I'm out of the office?	Postmodern ethics

STUDY QUESTIONS

1. What are ethical theories and why, if at all, do we need them?
2. Is ethical theory of any practical use to managers? Assess the benefits and drawbacks of ethical theory for managers in a global economy.
3. Define ethical absolutism, ethical relativism, and ethical pluralism. To what extent is each perspective useful for studying and practising business ethics?
4. What are the two main families of Western modernist ethical theories? Explain the difference between these two approaches to ethical theory.
5. Which ethical theory do you think is most commonly used in business? Provide evidence to support your assertion and give reasons explaining why this theoretical approach is more likely than others to dominate business decisions.

3

Read the following case:

You are the manager of FoodFile, a busy city-centre restaurant catering mainly to local office workers at lunchtimes and an eclectic, fashionable crowd of professionals in the evenings. You are proud of your renowned food and excellent service. Most of your staff have been with you since you opened three years ago—unusual in an industry characterized by casual labour and high turnover. You consider this to be one of the key factors in your consistency and success. Now, your head chef has come to you and told you, in confidence, that she is HIV positive. She is very distressed and you want to reassure her. However, you are troubled about her continuing to work in the kitchens and are concerned about the effect this news could have on the other staff, or even on your customers should they find out about her situation.

Using the summary of ethics theories provided in **Table 3.8**, set out the main ethical considerations that are suggested by each of the theories covered in this chapter.

Which theories are most persuasive in dealing with this dilemma?

What would you do in this situation and why?

RESEARCH EXERCISE

Select a business ethics problem or dilemma that you have faced or which has arisen in an organization of which you have been part, either as an employee, a student, or a manager.

Briefly describe the basic details of the case, and identify and discuss the main business ethics issues involved.

Set out the main responses, solutions, or courses of action that *could* have been considered in relation to this problem.

Evaluate these options using the theories discussed in this chapter.

What decision was finally made? To what extent do you believe that this was the best option, and why?

KEY READINGS

1. Fryer, M. 2016. A role for ethics theory in speculative business ethics teaching. *Journal of Business Ethics*, 138 (1): 79–90.

   This article argues that the role of ethical theory has been consistently underplayed in business ethics textbooks to the detriment of the subject. Mick Fryer suggests that there has been a kind of normative impasse. He argues that ethics theory is an important and bountiful resource to enhance the ethical sensitivity of business students to make informed, independent judgements about ethical business practice.

2. Brenkert, G. 2010. The limits and prospects of business ethics. *Business Ethics Quarterly*, 20 (4): 703–9.

   This short article from a former editor of one of the field's premier journals provides a useful critique of normative ethics, arguing that its usefulness will be limited unless we can show how business will actually change in line with the prescriptions from theory. For this, he argues, we need to complement normative analysis with a better understanding of the social and political role of firms.

Visit the online resources for further key reading suggestions.

CASE 3 Canada's oil sands: 'most destructive project on Earth' or 'ethical oil'?

Updated by Simon Oldham

This case outlines the ethical controversies surrounding the development of the Canadian oil sands. It sets out the pros and cons of the oil sands and examines the role that these factors play in broader political decisions in the US and Europe about supporting imports from the Canadian oil industry.

Despite the oil industry being no stranger to controversy, Canada's oil sands have become probably the most hotly contested development in decades. Extracting oil from the heavy, extremely viscous mixture of sand, clay, water, and bitumen has become economically viable within recent years. However, critics argue that the social and environmental costs are excessively high. Tar sands extraction requires much greater quantities of water than for conventional oil, it imposes a far higher burden of carbon emissions, and it has been associated with a range of other pollutants, including mercury contamination. According to the Sierra Club, the largest environmental NGO in the US, the oil sands produce 'the most toxic fossil fuel on the planet'.

Nevertheless, oil sands development also has its legions of supporters, especially in Canada, where most commercial extraction takes place. As exemplified by the publication of 'Ethical Oil: The Case for Canada's Oil Sands' by Canadian lawyer and lobbyist Ezra Levant, the Canadian oil sands have been argued by proponents to be a source of 'ethical oil'. This is justified by Levant and other supporters by the enormous economic benefits of the oil sands; for instance, they have been proven to be the third largest oil reserves in the world, with an almost doubling of production forecasted between 2017 and 2038 to 5.5 million barrels by 2038. Moreover, this argument has been compounded by the fact that Canada, when compared to many of the other largest oil-producing countries, has a strong track record of upholding democracy, human rights, and environmental protection.

Canada's oil sands industry

Oil sand is a naturally occurring substance that can be found in several locations around the globe, including Kazakhstan, Russia, and Venezuela. However, the deposits in the western Canadian province of Alberta are, so far, the largest and most commercially developed source in the world. Alberta's oil sands are located in an area of around 140,000 square kilometres in the north of the province, with Fort McMurray being the main urban hub for the industry and supporting services.

The Albertan oil sands have long been known to the local First Nations who used the bitumen to seal seams on their canoes. European explorers provided the first written accounts of the oil sands in the 18th century and the first patent for commercial separation processes to extract crude oil was awarded as early as the 1920s. Commercial operations only began seriously in the late 1960s with the establishment of the first oil sands mine. Development initially occurred relatively slowly, with the second and third mines only opening in the late 1970s and early 2000s respectively.

The initially slow pace of development was mainly due to the high cost involved in extracting crude oil from the oil sands; this, coupled with low oil prices and relatively abundant supply from other sources, made the oil sands economically unattractive. With the spike in oil prices that began around the turn of the century, the rush to secure greater energy independence in the face of an unsettled Middle East, and dwindling supplies elsewhere, investment flowed into the Albertan oil sands in the early 2000s. A swathe of foreign energy companies, including Shell, Chevron, Total, Statoil, Exxon, and ConocoPhillips, as well as the Korean National Oil Company, and CNOOC, China's largest producer of offshore crude oil, joined Canadian companies Suncro Energy and Syncrude to boost annual investment in oil sands extraction to just over $30 billion by 2012. From just over half a million barrels of bitumen a day in 1997, the oil sands industry in 2017 produced almost 2.77 million.

However, despite production increasing year on year, the oil market downturn in 2014 saw investment in new oil sands projects decline by up to 2/3, falling to around $10 billion dollars a year in 2018. Difficulties in bringing new pipelines online, escalating carbon taxes, and a cap on greenhouse emissions from the oil sands have dampened many investors' interest in the Canadian oil sands.

The pros and cons of the oil sands

The rapid expansion of the oil sands has brought a host of economic benefits to the local Albertan economy and to Canada as a whole. According to the Canadian Energy Research Institute (CERI), almost every community in Canada has been touched by oil sands development through the stimulating impact it has had on job creation and economic growth. Some of the headline impacts promoted by oil sands supporters include:

- Employment in Canada's oil sands industry as a result of its expansion is expected to grow from 206,000 jobs in 2017 to 461,000 jobs in 2027.
- Between 2014 and 2015, 3,400 Canadian companies outside of Alberta supplied the oil sands industry with goods and services.
- Between 2014 and 2015, 371 companies in Quebec earned CAD$1.2 billion in business contracts related to the oil sands industry.
- The oil sands industry is expected to contribute CAD$1.6 trillion to the Canadian economy between 2017 and 2027 and CAS$521 billion to the US economy over the 25-year period from 2010 to 2035.
- The oil sands industry will pay an estimated CAD$139 billion in federal taxes and CAD$98 billion in provincial taxes between 2017 and 2027.
- In the US, the oil sands industry is expected to contribute $16 billion to gross state product and create or sustain 145,000 jobs between 2017 and 2027.

- In 2015 and 2016, 399 indigenous companies, representing 65 communities from across Alberta, had direct business with oil sands operators, valued at CAD$3.3 billion.

On the other hand, many critics have highlighted the significant environmental problems caused by oil sands development. Although all oil sands developments must meet Canada's environmental protection regulations, since production began ramping up in earnest after the turn of the century, environmentalists and other critics have pointed to a litany of negative environmental impacts. For example, some of the studies conducted by researchers and environmental groups conclude that:

- Research suggests that oil sands-based petroleum production releases 20% more greenhouse gases than conventional petroleum production.
- Oil sands emissions accounted for 10% of Canada's greenhouse gas emissions in 2017 and 0.14% of global greenhouse gas emissions. Canada is now among the top ten greenhouse gas producers on an absolute basis.
- Planned expansion of oil sands production is predicted to increase global carbon emissions by between 50 and 150 million tonnes annually by 2030. Such an increase would impede Canada's ability to meet emissions targets as a result of the 2015 Paris Climate Accord.
- As of 2017, ponds of toxic sludge produced by the Canadian oil sands industry covered 220 square kilometres, containing 1 trillion litres of chemical and hydrocarbons which have been found to leak into the local environment.
- As of 2017, an area of boreal forest and muskeg habitat the size of New York City has been destroyed.
- Studies suggest that oil sands development pollutes lakes in the Alberta region with toxic carcinogens. Furthermore, emissions from oil sands production contain neurotoxins, a number of which are carcinogenic, which have led to numerous reports of local residents with health problems, such as elevated levels of cancer.
- In 2011, the oil sands industry used 170 million cubic metres of water, equivalent to the residential water use of 1.7 million Canadians; by 2030 this figure is estimated to climb by almost 170%.
- Since commercial activities started in the 1960s, by 2016 only 11% of active mining footprint has been or is in the process of being reclaimed—much of the peatlands and old growth forests that have been destroyed will never return to their natural state.

These and many other environmental criticisms have continued to plague oil sands companies, despite some companies investing considerable resources into environmental enhancements of various kinds, including better water efficiency at mine sites and new technologies such as carbon capture and storage (whereby waste carbon dioxide is captured and stored to prevent it being released into the atmosphere).

Most environmental groups remain unconvinced that these improvements are making a tangible difference, given the speed and scale of development in northern Alberta. Many have taken a strong position against any further development, with groups like the Canadian NGO Environmental Defence labelling the oil sands 'the most destructive project on Earth', while Greenpeace is 'calling on oil companies and the Canadian government to stop the tar sands'. Some more moderate voices, such as the Pembina Institute, have a goal to advance what they call 'responsible oil sands development', which involves a cap on environmental impacts and a reduced environmental footprint per barrel of oil produced. Even the terminology of the oil sands remains contentious, with critics typically labelling it the 'tar sands' while industry and the Canadian government prefer the more benign-sounding 'oil sands'.

3

The 'ethical oil' makeover

In the face of such challenges to the reputation of the oil sands, one particularly controversial approach to restoring its tarnished image has been to focus on the country of origin of competing sources of crude. That is, in addition to all of the supposed economic benefits of oil sands development, some also highlight that buying oil from Canada is more responsible than buying from many other oil-producing countries. The basic point here is that because the oil sands are in Canada, they are properly and democratically regulated; they do not fall foul of the corruption and abuses common in oil-rich countries and the proceeds do not go into funding terrorism.

Exponents of this argument need only point to the countries with the largest current reserves of oil to make their point (see **Table 3.9**). Apart from Canada, most other states in the top ten have relatively poor records of democracy and upholding human rights. The Canadian-based NGO Ethicaloil.org, which is the most vociferous promoter of this argument, argues that oil-producing countries should, therefore, be divided into those producing 'ethical oil' and those producing 'conflict oil': 'Countries that produce Ethical Oil uphold human rights and have high environmental standards. They ensure economic justice and promote peace. By contrast, Conflict Oil countries oppress their citizens and operate in secret with no accountability to voters, the press, or independent judiciaries.'

The book that popularized the idea, *Ethical Oil: The Case for Canada's Oil Sands,* written by Ezra Levant, became a best-seller in Canada and ended up winning the National Business Book Award. Levant went on to set up Ethicaloil.org, which is widely believed to benefit from oil industry funding and support—or, as one Greenpeace spokesperson put it, it is 'a front group for Big Oil'. This sentiment was echoed by the then climate sceptic Prime Minister, Stephen Harper, who, when referring to petroleum production, noted that 'Canada is a very ethical society and a safe source for the United States in comparison to other sources of energy'.

The 'ethical oil' debate quickly ignited controversy in Canada, not least because it looked to many like an attempt to airbrush out the problematic aspects of the oil sands. John Bennett, executive director of the Sierra Club of Canada, explained that 'the fact that the Saudis or Nigerians or others

Table 3.9 Top ten countries by proven oil reserves as of 2017

Rank	Country	Reserves (billions of barrels)
1	Venezuela	301
2	Saudi Arabia	267
3	Canada	170
4	Iran	158
5	Iraq	143
6	Kuwait	102
7	United Arab Emirates	98
8	Russia	80
9	Libya	48
10	Nigeria	37

Source: Central Intelligence Agency, *The World Factbook*: https://www.cia.gov/library/publications/the-world-factbook/rankorder/2244rank.html are worse in human rights and environment is not relevant. We can't do anything about that; we can deal with our oil sands and we are not.' Others, such as the renowned Canadian environmentalist David Suzuki, remarked simply that 'in today's world, all fossil fuels are unethical. There is no such thing as ethical oil.'

The politics of the oil sands

Yet the discourse regarding the ethics of the Canadian oil sands constantly evolves, particularly influenced by the relationship between Canada and the US and the stance each of the country's leaders takes towards climate change.

The majority of oil sands crude is sold to Canadian and US refineries; for instance, in 2017, 99% of Canada's oil exports went to the United States. Nevertheless, despite an increasing share of US imports, it looked for a while like the oil sands would be vulnerable to US efforts to green its energy mix. US environmental groups had long fought restrictions on US imports of 'dirty' oil sands oil, while President Barack Obama made fighting climate change a key plank of his inaugural address back in 2013.

The issue of the US's relationship with the oil sands crystallized in the long-running debate about the Keystone XL pipeline extension, which was designed to bring more oil sands crude to refiners in the US. The project became mired in controversy during the 2010s due to its own potential environmental impacts (the risk of spills into ecologically sensitive terrain) as well as the divisive issue of bringing oil sands crude, and its heavier greenhouse gas burden, into the US energy mix at a time when the country was looking to reduce rather than increase its emissions. The issue came to a head during the Obama administration with the President refusing, on the advice of the Environmental Protection Agency, to give the executive order required for the pipeline to go ahead, arguing that the project would not lower petrol prices, create long-term jobs, or affect energy independence. However, weeks into the Trump administration in early 2017, the President signed an executive order supporting Keystone XL, sanctioning the construction of the pipeline which could carry up to 850,000 barrels of oil a day from Canada to the US, a move seen by many as emblematic of the Trump administration's disregard for environmental protection, climate change, and sustainable development.

These issues, and the future of the oil sands, were further confused on the election of Justin Trudeau as Canadian Prime Minister, as many believed he would reverse his predecessors' lax attitude towards and policies on climate change, given his vocal support of environmental protection. However, he subsequently threw his support behind the Keystone XL project and was quoted at a Texas energy conference in 2017 as saying that 'no country would find 173 billion barrels of oil in the ground and leave them there'.

Overall, with increasing pressure for a global reduction in carbon emissions, intense commercial pressure affecting the oil and gas industry, and changing political winds buffeting discourse around its ethicality, what the future holds for the Canadian oil sands is far from clear.

QUESTIONS

1. Which actors have a stake in deciding whether the oil sands are an ethical source of oil and why do you think they differ so much in their assessments?
2. How would you go about conducting a utilitarian analysis of the oil sands for the purpose of deciding whether it is an ethical source of oil? Provide a provisional assessment based on the data in the case and outline what other data you would need to make a full assessment.
3. How would this assessment differ if you focused primarily on principle-based ethics (duties, rights, and justice)? What issues take precedence now and do they give a reasonable perspective on the problem?

How would you compare oil sands oil to other sources of oil from an ethical perspective?

Consider the case for saying that all oil is unethical. What theory or principle might support such an assertion? Is it a useful position to take, and if so, for whom?

Visit the online resources for web links to useful sources of further information on this Case.

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NOTES

[1] There is no comfortable way around the fact that most of the theories and concepts in this chapter were derived from the study of men, and excluded women as moral subjects. This is not something that should be overlooked and is addressed more directly when we come to the ethic of care perspective.

[2] In fact, although the ICCR began as a coalition of faith-based investors, its 'current membership has grown beyond the universe of religious investors to include like-minded mainstream institutional investors who recognize the moral and ethical repercussions of their financial decisions. Affiliation with a faith tradition is not a requisite for ICCR membership.' See http://www.iccr.org/our-approach/connection-between-faith-investing.

[3] For the full text, go to http://institute.jesdialogue.org/fileadmin/bizcourse/interfaithdeclaration.pdf.

[4] Those who have used previous editions of this textbook may notice that our labelling has changed a little, particularly in using 'principle-based' rather than 'non-consequentialist'. This is because we have expanded the section on social contract theory, and particularly John Rawls' theory of justice, in line with its continued relevance in business ethics research and teaching. This theory is not strictly speaking non-consequentialist, in that it incorporates some elements of outcomes into its analysis, though it is firmly based on the development of principles, hence the new emphasis in the categorization.

[5] See http://www.business-humanrights.org.

[6] https://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf.

[7] On the right path: Human rights at work report 2016. http://www.eversheds-sutherland.com/global/en/where/europe/uk/services/employment-law/business-human-rights-zmag.page?utm_source=website&utm_medium=bhr-banner&utm_campaign=BHR%2520report%2520zmag.

[8] https://www.equalityhumanrights.com/sites/default/files/business_and_human_rights_web.pdf.

[9] We will not focus here on the important issue of gender (this is covered in more detail in Chapter 7 on employees), but useful discussions on this can be found in Grosser, McCarthy, and Kilgour (2017); McCarthy (2017); McCarthy and Moon (2018).

[10] In some ways, then, postmodern approaches to ethics resonate quite substantially with some Asian ethical frameworks, particularly those such as Buddhism or Taoism. Rather than the monotheistic 'book religions', which in different degrees have entire dogmas of right and wrong built around them, these Eastern philosophies seek to go beyond rationality and instead emphasize qualities such as compassion or spontaneity.

4

Making Decisions in Business Ethics

Descriptive Ethical Theories

Having completed this chapter you should be able to:

- Explain why ethical and unethical decisions get made in the workplace.
- Specify the characteristics of a decision with ethical content.
- Understand a basic ethical decision-making model and delineate key elements of individual and situational influences on ethical decision-making.
- Critically evaluate the role of individual differences in shaping ethical decision-making.
- Critically evaluate the role of situational influences on ethical decision-making, including both issue-based and context-based factors.
- Identify points of leverage for improving ethical decision-making in business.

Key concepts:

- Descriptive ethical theory
- Cognitive moral development
- Personal values
- Personal integrity
- Whistleblowing
- Moral framing
- Authority
- Bureaucracy
- Organizational culture

INTRODUCTION

Languishing in a prison cell in North Carolina in America is a very elderly man serving the first decade or so of a 150-year sentence. Prisoner number 61727-054 is Bernard Lawrence Madoff, a hugely financially successful businessman who travelled the full gamut of un/ethical business practice—from celebrated philanthropist to convicted criminal. Over a period of more than two decades, Madoff defrauded his clients of an alleged $65 billion in a 'Ponzi scheme' constituting the largest fraud in US history. When Madoff finally turned himself in to the police he was widely depicted as the ultimate business villain, or even a 'monster', who callously abused the trust of his clients. The assumption was, initially, that Madoff was an 'extraordinarily evil' individual who had acted independently, without the knowledge of his business partners, employees, clients, or even his family (Frank and Efrati 2009). Further analysis has, however, shown that Madoff was operating within a web of crucial collaborators who were perhaps too inter-reliant on their social connections (Manning 2010) and found a business environment—including his credulous clients—that encouraged and enabled his fraud to continue. This includes his key banking partner, JP Morgan, who agreed to pay a $1.7 billion penalty for its involvement in the scandal, but also five more individuals were sentenced for collaborating in Madoff's fraud (Lappin 2014).

Madoff's story raises the question of whether unethical behaviour is simply a matter of individual human ingenuity to do wrong, or whether we can also put such problems down to external factors. Perhaps corruption is as much due to the culture of certain industries as it is to personal characteristics. The escalating incidence of ethical misconduct uncovered in the aftermath of the financial crisis could be more attributable to institutionalized norms of behaviour on Wall Street or in the City of London than any individual wrongdoing.

This chapter looks at the issue of ethical decision-making in organizations to begin to answer some of these questions about the causes of misbehaviour. In so doing, we will seek to provide the tools to explain why some business people make what appear to be the right ethical choices, while others do things that are unscrupulous or even illegal. We will also address the question of whether people who make these unethical decisions are inherently bad, or whether there are other reasons that can explain the incidence of ethics problems in business. The chapter provides a way of addressing these questions by examining **descriptive ethical theory**.

Descriptive ethical theory Theory that describes how ethical decisions are actually made in business, and explains what factors influence the process and outcomes of those decisions.

Descriptive ethical theories provide an important addition to the *normative* theories covered in Chapter 3: rather than telling us what business people *should* do (which is the intention of normative theory), descriptive theories seek to tell us what business people *actually* do—and more importantly, they will help to explain *why* they do those things.

Understanding the reasons why people make certain decisions is clearly important from a business ethics perspective, not least because it helps us to comprehend the factors that lead to ethical and unethical decisions. From a practical point of view, though, this is also useful for managing business ethics. Obviously, we first need to know what shapes ethical decision-making before we can try and influence it. Therefore, descriptive theories can be said to provide a practical understanding of how the ethical theories covered in the previous chapter can be applied, as well as assisting in identifying points of leverage for managing business ethics, as will be discussed in Chapter 5.

We begin by looking at what exactly an ethical decision is and then go on to examine the various models that have been put forward to explain the process of ethical decision-making in the workplace. This shows us that, although ethical decision-making is very complex, extensive research over the years from psychologists, sociologists, management scholars, and others has provided us with a relatively clear picture of the important stages and influences that are central to understanding the ethical decision-making process. We proceed to summarize and evaluate current knowledge about these stages and influences, covering the cognitive and emotional processes that individuals go through in making ethical evaluations, as well as the situational influences that shape the decisions and actions they actually come to make.

WHAT IS AN ETHICAL DECISION?

On the face of it, this is a very simple question. After all, we have already said in Chapter 1 that ethical decisions are concerned with a judgement about right and wrong. But as Morris (2004) suggests, by using the language of right and wrong, we have already identified that a situation is moral in nature. So, there is an important process of identification that goes *before* this, whereby we examine situations and determine whether they are characterized by such considerations in the first place.

Imagine, for example, a situation where you are downloading a copy of Beyoncé's latest album from your friend. Are you faced with a moral dilemma? Is this an ethical decision? Perhaps, for you, this is simply a normal practice that has no apparent moral dimensions. But Beyoncé's record label may take a very different view. They may argue that there is an important moral dimension to this decision, since you are not only breaking the law, you are 'stealing' intellectual copyright for free and depriving the company and the artists of their rightful return on their investment. So how do we objectively decide whether a situation should be assigned moral status in the first place?

There are a number of factors that we might identify here, the most important of which are these:

- **The decision is likely to have significant effects on others.** As we saw in Chapter 3, two of the most critical aspects of morality are that it is concerned with harms and benefits, and that it is about considerations of social good, i.e. considerations of others beyond the self. Even egoism is concerned with others, in that one is expected to act in one's own self-interest because that is for the *good of society*. Copying an album does have material effects on others, namely the record label, the musicians, and other organizations that have contributed their time and effort to its production.
- **The decision is likely to be characterized by choice, in that alternative courses of action are open.** A moral decision requires that we have a choice. For argument's sake, if you accidentally copied Beyoncé's album without realizing it, then you could not be said to have had much of a choice in the matter. In the normal course of affairs, however, you have the option to copy it or not copy it. When decision-makers actually recognize that they have ethical choices, then they face an *ethical dilemma*.
- **The decision is perceived as ethically relevant by one or more parties.** Regardless of whether the decision-maker sees a decision as having ethical content, if others do, then

the decision immediately incurs some degree of ethicality. When a bank provides a loan for a new infrastructure project, this might seem like an ethically neutral act, but campaigners against the project who are concerned about its impacts on local people and the environment might regard it as highly ethically significant. Similarly, just because someone copies albums all the time without ever considering it to be an ethical decision, that does not mean they are engaging in an ethically neutral act.

Now that we have identified the basic characteristics of an ethical decision, let us look at how we can model the decision process that we go through in responding to the decision.

MODELS OF ETHICAL DECISION-MAKING

If we think about times when we have been confronted with an ethical dilemma, we might well now be able to recognize what kind of normative principles we were employing–perhaps we were mainly concerned with possible consequences, or maybe we were thinking mainly about rights or relationships. However, we are probably less likely to know why we thought about it in this way, or why we even saw it as an ethical issue in the first place. This, however, is the purpose of descriptive models of ethical decision-making. Various models have been presented in the literature, and by far the most widely cited ones have been derived from the work of psychologists.

In general, these models primarily seek to represent two things:

- The different stages in decision-making that people go through in responding to an ethics problem in a business context.
- The different influences on that process.

We shall briefly look at each of these two aspects in turn and link them together to form a framework for understanding ethical decision-making in business.

Mark Schwartz (2016) helpfully distinguishes two further broad perspectives on ethical decision-making as either rationalist or intuitionist/sentimentalist. The rationalist perspective assumes that a logical reasoning approach, a kind of calculation of what needs to be done, is followed prior to arriving at an ethical judgement. As Schwartz (2016: 758) notes, the vast majority of ethical decision-making theory assumes this perspective. There is also, however, a more recently developed range of approaches which involve the cognitive process of intuition and/or emotion or sentiments (Lehnert, Park, and Singh 2015). Schwartz notes in particular the work of Jonathan Haidt (2001) and colleagues (Kluver, Frazier, and Haidt 2014) in this area. According to these perspectives, quick moral intuitions are key—the idea that you just know what is right or wrong without stopping to think through all the possible permutations or logics which apply to a decision. Emotion-based mechanisms and sentiments have also been incorporated into these lines of thinking on ethical decision-making. As we saw in Chapter 3, there are many different ways to understand and evaluate business ethics, and Schwartz's (2016) model to *integrate* the rationalist, emotional, and intuitive factors may be one way forward in ensuring a more balanced approach. The current dominant research in this area, however, still emphasizes the rationalist perspective as Lehnert, Park, and Singh's (2015) review of ethical decision-making illustrates, which we will also follow primarily in this chapter.

Table 4.1 Four distinct process components of ethical decision-making (rationalist perspective)

1. Awareness	Becoming aware that there is a moral issue at stake. Also referred to as interpreting the situation, sensitivity, or recognition.
2. Judgement	The decision-making itself, sometimes called moral evaluation or moral reasoning.
3. Intent	Moral intent is established, which may be referred to as moral motivation, decision, or determination.
4. Behaviour	Acting on these intentions through one's behaviour can be referred to as action or implementation.

Source: Developed from Schwartz (2016), based on Rest (1986)

STAGES IN ETHICAL DECISION-MAKING

The most frequently used and long standing framework for conceptualizing rationalist ethical decision-making in business is the four-stage process of ethical decision-making introduced by James Rest (Craft 2013; Schwartz 2016). According to this model, individuals move through a process of four stages as shown in **Table 4.1.**

These stages are intended to be conceptually distinct, such that although one stage in the model might be reached, this does not mean that one will necessarily move onto the next stage. Hence, the model distinguishes between *knowing* what the right thing to do is and actually *doing* something about it; or between *wanting* to do the right thing and actually *knowing* what the best course of action is. So, for example, even though a salesperson might know that lying to customers is wrong (a moral judgement), for one reason or another—such as needing to meet aggressive sales targets—they might not actually always tell the truth (a moral behaviour). Similarly, although a purchasing manager may realize that receiving personal gifts from suppliers is ethically questionable (a moral recognition), they may defer making a judgement about the problem (a moral judgement) until someone actually questions them about it.

RELATIONSHIP WITH NORMATIVE THEORY

The role of normative theory (which is the type of theory we discussed in Chapter 3) in these stages of ethical decision-making is primarily in relation to *moral judgement*. Moral judgements can be made according to considerations of rights, duty, relationships, discourse, consequences, etc. As we saw in Chapter 3, much economic and business theory is largely predicated somewhat narrowly upon consequentialism (Desmond and Crane 2004), and there is some evidence to suggest most people are consequentialists, especially those that are young, university-educated, and have high incomes (Johansson-Stenman 2012). Consequentialist perspectives are also dominant in business decision-making research and theory. While we will concentrate on this here, it is worth noting that in other areas of ethical decision-making research consequentialism is far less dominant, with, for instance, a relational view of ethical decision-making holding sway in the contexts of therapy and counselling. As Elizabeth Shaw (2017) says on this point, 'ethical decision-making models can be useful but their linear, procedural and cognitive approach can seem at odds with a decision that has us wrought with anxiety.' While not every business decision is necessarily anxiety-inducing, many are, or indeed should be, and it is worth keeping this in mind when thinking about the more traditional models presented here. A decision to downsize, for instance, has huge economic and social consequences for those affected and their families and should never be taken lightly, as we will go on to discuss in Chapter 7 on employees.

An interesting example of consequentialist reasoning was given by Joel Bakan (2004: 61–5) in his book *The Corporation*. He describes the decision-making process at General Motors in the face of a design problem with its Chevrolet Malibu model. The company decided to reposition the fuel tank on the car, despite knowing that this would increase the possibility of passengers being harmed in fuel-fed fires if the car was involved in a rear-end collision. A report produced by a GM engineer had simply multiplied the 500 fatalities that such collisions caused each year by \$200,000—an estimate of the cost to GM in legal damages for each potential fatality at the time. Then, by dividing that figure by the number of GM vehicles on the road (41 million) the engineer concluded that each fatality cost GM \$2.40 per car. In his report, the calculation appeared like this:

$$\frac{500 \text{ fatalities} \times \$200{,}000\ /\text{fatality}}{41{,}000{,}000 \text{ automobiles}} = \$2.40\ /\text{automobile}$$

Given that the cost to GM of preventing such fires was estimated to be \$8.59 per car, the company reckoned it could save \$6.19 (\$8.59 – \$2.40) per car if it allowed people to die rather than changing the design—and so went ahead with the dangerous design anyway.

This type of cost-benefit analysis is extremely prevalent in organizational decision-making. It echoes the well-documented notorious case of the Ford Pinto from the same era, a classic in the business ethics field (Gioia 1992), or General Motors' subsequent experience in 2014, when the CEO had to explain to a congressional hearing why it took the company ten years to recall a small switch, worth 57 cents, which had led to many accidents, including at least 13 deaths (CBCnews 2014). Indeed, in the Malibu case a subsequent court case against GM by fire victims received a crucial deposition from the US Chamber of Commerce that held up this type of cost-benefit analysis as a 'hallmark of corporate good behaviour'. Bakan (2004: 64) quotes the philosopher Alasdair MacIntyre who argues that the executive 'has to calculate the most efficient, the most economical way of mobilizing the existing resources to produce the benefits . . . at the lowest costs. The weighing of costs and benefits is not just his business, it is business.'

This could be seen as a rather pessimistic vision of organizational life. However, the issue of *whether* and *how* normative theory is used by an individual decision-maker depends on a range of different factors that influence the decision-making process, as we shall now see.

THINK THEORY

Think about the prevalence of consequentialist approaches to decision-making, such as cost-benefit analysis, in organizations that you have worked in. Is such reasoning as inevitable as Bakan and MacIntyre suggest or is it possible to invoke relational perspectives, or ethics of rights, duties, or justice, for example? Does it make any difference what type of organization you are considering—large or small, public or private, for profit or not for profit?

Visit the online resources for a suggested response.

INFLUENCES ON ETHICAL DECISION-MAKING

Models of ethical decision-making generally divide the factors that influence decisions into two broad categories: individual and situational (Schwartz 2016).

- **Individual factors.** These are the unique characteristics of the individual actually making the relevant decision. These include factors that are given by birth (such as age and gender) and those acquired by experience and socialization (such as education, personality, and attitudes).
- **Situational factors.** These are the particular features of the context that influence whether the individual will make an ethical or an unethical decision. These include factors associated with the work context (such as reward systems, job roles, and organizational culture) and those associated with the issue itself (such as the intensity of the moral issue or the ethical framing of the issue).

Taken broadly, these two groups of factors help to explain why certain business decisions get made, and why people behave in ethical and unethical ways in business situations. In the rest of this chapter we shall examine the two sets of factors in much more detail, with the intention of providing the basis for assessing their relative importance to ethical decision-making. Before we do, however, it is worth offering a brief word of warning.

LIMITATIONS OF ETHICAL DECISION-MAKING MODELS

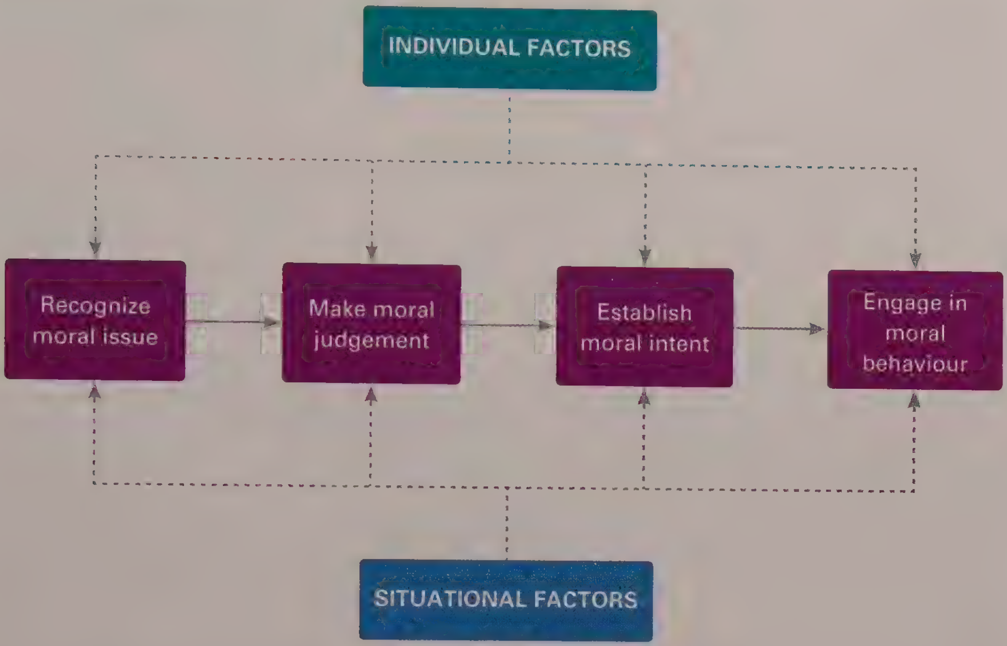
Individual and situational factors are very useful for structuring our discussion and for seeing clearly the different elements that come into play within ethical decision-making. However, building on the point made above about overreliance on linear models, such an approach is not without its problems, and as we go through the chapter you might notice that it is not always particularly straightforward (nor, some would argue, sensible) to break down these various elements into discrete units. Many of the various stages and influences are, to differing degrees, related, perhaps even interdependent. It can thus seem quite optimistic at times to separate out an individual factor and attempt to identify its unique role in the process of ethical decision-making. Nonetheless, these are criticisms that can be levelled at *all* models of this type, and we feel that as long as one is aware that the model is intended not as a definitive representation of ethical decision-making but as a relatively simple way to represent a complex process, the model is still useful, as we need to find some way of dealing with a complex topic in an inevitably limited book chapter. **Figure 4.1** represents our approach to moving away from a linear model to ethical decision-making and embracing the complexity of such processes a little more clearly.

Finally, it is also worth mentioning that ethical decision-making models have largely originated in the US, and this can sometimes give a national or cultural bias to the types of issues and considerations that might be included. Let us just briefly review the different international perspectives before continuing.

INTERNATIONAL PERSPECTIVES ON ETHICAL DECISION-MAKING

In Chapter 1 we discussed some of the global differences in business ethics (especially between those in Europe, North America, and Asia), and we will again meet some of these in this chapter

Figure 4.1 Framework for understanding ethical decision-making



Source: Developed from Rest (1986), as cited in Jones, T.M. 1991. Ethical decision making by individuals in organizations: an issue-contingent model. *Academy of Management Review*, 16: 366–95. Reproduced with permission from the Academy of Management, conveyed through Copyright Clearance Center, Inc

about ethical decision-making. As we mentioned in Chapter 1, in the US and Asia the central focus of the business ethics subject tends to be individual actors and their behaviour, whereas in Europe there is more interest in the design of economic institutions and how they function in a morally desirable way and/or encourage moral behaviour of business actors. This difference in perspective becomes quite visible with the topic of ethical decision-making, since we could argue that research on *individual factors* influencing ethical decision-making has a strong North American bias, while *situational factors*, on the other hand, have been subject to a lengthy debate principally originated by European authors. The significance of this difference is that a focus on individual factors is consistent with the North American focus on choice *within* constraints, while a focus on situational factors reflects the more European concern with the *constraints* themselves.

To begin with, the very founders of modern organizational theory in Europe have stressed the influence of *social contexts* on ethical decision-making. For example, in the 19th century, the French sociologist Emile Durkheim (1993) discussed the emergence of, and necessity for, new work-related moral communities due to the effects of the Industrial Revolution on the erosion of traditional value systems that held societies together (Thompson and McHugh 2002). Similarly, the German sociologist Max Weber, to name another prominent example from the early 20th century, shed a critical light on the ethical basis and influence of bureaucratic organizations (du Gay 2000). He distinguished between actions that were guided by an 'ethic of absolute ends' and an 'ethic of responsibility'.[1] While the first would represent an idealistic view of humanity, reflecting a person's real moral convictions rooted in social good, the latter is an ethic that sees responsibility for the pursuit of the organization's goals as the ultimate moral imperative.[2]

We will discuss the influence of bureaucratic organizations on individual actors in more detail later in the chapter. However, along these lines, another prominent figure, the Polish sociologist Zigmunt Bauman (1991), has argued that there is not only an *influence* of bureaucratic organization on the morality of actors, but he regards the two as *mutually exclusive*. We have already come across Bauman in Chapter 3 as one of the key thinkers in postmodern ethics. As such, he contends that organizational dynamics act to neutralize the 'moral impulse' of the individual. Rational organizations require loyalty, discipline, and obedience, all of which, Bauman contends, stifle the personal and emotional aspects that are crucial for a sense of morality to exist (ten Bos and Willmott 2001). In contrast, US-based researchers have tended to focus more on the importance of individual agency in ethical decision-making. Although, as we shall see later in the chapter, important contributions to our understanding of the institutional basis of ethical decision-making have been made by American social psychologists, such as Philip Zimbardo, business ethics researchers from the region have tended to focus on individual-level differences. Asian business ethics researchers, meanwhile, have also tended to replicate this approach by concentrating mainly on studies of managers and the cultural values that drive their ethical perception and choices (e.g. Christie et al. 2003; Ho and Redfern 2010). We will explore some of these different influences on ethical decision-making later on in this chapter. We will start, though, with an examination of key individual influences.

INDIVIDUAL INFLUENCES ON ETHICAL DECISION-MAKING

What is it about you or your classmates that causes you to act in different ways when confronted by the same ethical dilemmas? Individual influences on ethical decision-making relate to these facets of the individual who is actually going through the decision-making process. Clearly all employees bring certain traits and characteristics with them into an organization, and these are likely to influence the way in which the employee thinks and behaves in response to ethical dilemmas. For example, some evidence suggests that entrepreneurs and small business owners may think and act differently than others in response to ethical issues, because they tend to be creative, goal-orientated, and risk tolerant (Harris, Sapienza, and Bowie 2009). Although this could be taken to suggest that some people, such as small business owners, are simply more ethical than others, this is rather too simplistic a view. Individual factors can more readily account for why some people are perhaps more swayed than others into unethical conduct because of the influence of their colleagues. Similarly, individual factors can help to explain why some people perceive particular actions to be unethical while others do not. Hence, the issue is not so much about determining the reasons why people might be more or less ethical, but about the factors influencing us to think, feel, act, and perceive in certain ways that are relevant to ethical decision-making. Over the years, researchers have surfaced a number of important individual influences, as we shall now see. The factors and their likely influence on ethical decision-making are summarized in **Table 4.2**.

Table 4.2 Individual influences on ethical decision-making

Factor	Influence on ethical decision-making
Age and gender	Very mixed evidence leading to unclear associations with ethical decision-making.
National and cultural characteristics	Appear to have a significant effect on ethical beliefs, as well as views of what is deemed an acceptable approach to certain business issues.
Education and employment	Somewhat unclear, although some clear differences in ethical decision-making between those with different educational and professional experience seem to be present.
Psychological factors: Cognitive moral development	Small but significant effect on ethical decision-making.
Locus of control	At most, a limited effect on decision-making, but can be important in predicting the apportioning of blame/approbation.
Personal values	Significant influence—empirical evidence citing positive relationship.
Personal integrity	Significant influence likely, but lack of inclusion in models and empirical tests.
Moral imagination	A relatively new issue with potential, but largely untested, explanatory potential.

AGE AND GENDER

A good place to start in examining the individual influences on ethical decision-making is to consider some basic demographic factors, such as age and gender. For example, one common question is whether men or women are more ethical. Gender has, in fact, been one of the individual influences on ethical decision-making in business most often subjected to investigation (Craft 2013). However, overall the results have been less than conclusive, with different studies offering contradictory results, and often no differences found at all (Loe et al. 2000; Chen et al. 2016). For example, ten of the 38 studies reported by Craft (2013) concluded that women are more ethical than men, while other studies demonstrated that men were more consistent in their ethical decision-making or were stricter when making ethical judgements. This confusion may in part be due to overly simplistic approaches to gender. Notwithstanding an almost universal exclusion of those with non-binary gender identity, Chen and colleagues (2016) point out that gender is a far from straightforward construct, which includes biological sex, psychological qualities, and gender-role attitudes. They point out that gender socialization theory argues that social factors or influences cause distinct moral developments in men and women; thus, men and women respond differently to the same situation.

Perhaps, then, the problem is more with the studies themselves and the questions they seek to answer (Loe et al. 2000). As we noted, treating the characteristics we are discussing as mutually exclusive would be an error and it might be that other factors mediate the effect, if any, of gender, such as culture (Chen et al. 2016). As we have said, it is rather simplistic to assume that some people are just more ethical than others, and even if this could be claimed, there seems no obvious reason why gender would be an important determinant. However, as we saw when discussing feminist ethics in Chapter 3 (which we shall return to shortly below), there is evidence to suggest that the way in which men and women think and act in response to ethical dilemmas might differ.

Another basic factor we might look at is whether age makes any difference to ethical decision-making. However, a similar problem is present with age as with gender. Empirical tests have tended to report very mixed results, with no clear picture emerging on the influence of age on ethical beliefs and action (Craft 2013). Indeed, again it would seem to be too generalized to categorize certain age groups as 'more ethical' than others, although certain *experiences* might in themselves shape the way in which we recognize and respond to ethical problems.

NATIONAL AND CULTURAL CHARACTERISTICS

Another basic demographic characteristic is nationality. When we meet people from different countries and cultures, either at home or overseas, it does not take long before we start to see certain differences in what they perceive as ethical or unethical, or how they might go about dealing with ethical issues. Issues of nationality, ethnicity, and religion have therefore been of increasing interest to researchers of ethical decision-making, as one might expect, given the trends towards globalization identified in Chapter 1.

As we argued previously, people from different cultural backgrounds are likely to have different beliefs about right and wrong, different values, etc., and this will inevitably lead to variations in ethical decision-making across nations, religions, and cultures. There is, again, a problem here with assuming that people from particular nations, religions, or ethnic groups can simply be deemed to be 'more ethical' or 'less ethical' in their decision-making than others. However, research has suggested that nationality can have a significant effect on ethical beliefs, as well as views of what is deemed an acceptable approach to certain business issues.[3] These differences have been noted, not just in the somewhat obvious cases of managers from developed and from less-developed countries, but also between those from different countries within Europe, those from Europe and the US, or even between those from different ethnic groups in the same country.

Geert Hofstede's research has been extremely influential in shaping our understanding of these differences (Hofstede 2001; Hofstede et al. 2010). Based initially on surveys completed by IBM's mostly white, male, well-educated employees, employed in similar roles throughout the world (Moulettes 2007), Hofstede suggests that differences in cultural knowledge and beliefs across countries—our 'mental programming'—can be explained in terms of six dimensions:

- **Individualism/collectivism.** This represents the degree to which one is autonomous and driven primarily to act for the benefit of one's self, contrasted with a more social orientation that emphasizes group working and community goals.
- **Power distance.** This represents the extent to which the unequal distribution of hierarchical power and status is accepted and respected.
- **Uncertainty avoidance.** This measures the extent of one's preference for certainty, rules, and absolute truths.
- **Masculinity/femininity.** The extent to which an emphasis is placed on valuing money and things (masculinity) versus valuing people and relationships (femininity).
- **Long-term/short-term orientation.** This addresses differences in attention to future rewards, where long-term-oriented cultures value perseverance and thrift, while short-term ones emphasize more preservation of 'face', short-term results, and fulfilment of social obligations.
- **Indulgence.** This measures the degree to which societies permit or suppress gratification of basic and natural human drives related to enjoying life and having fun.

Hofstede's dimensions can be seen to explain certain differences in ethical decision-making. For example, someone from an individualist culture, such as are found in northern Europe and America, might be more likely to reflect on ethical problems alone in order to make their own independent decision, while someone from a collectivist culture, such as are found in southern Europe and Latin America, might be more likely to consult with the wider group. Similarly, a high power distance culture (i.e. one that respects and accepts stratification in power and status), like Japan or China, might be less willing to question the orders given by their superiors, even if they felt they were being asked to do something ethically questionable. Empirical work has generally tended to support these sorts of relationships (e.g. Jackson 2001; Christie et al. 2003). Nevertheless, Hofstede's framework remains open to vehement criticism by some (Baskerville-Morley 2005; McSweeney 2002; McSweeney, Brown, and Iliopoulou 2016), who challenge the claim that national culture exists at all, and argue that the dimensions lack predictive power. That is, if you meet someone from Indonesia, who is to say that they will match Hofstede's idea of what an Indonesian's cultural dimensions should be? One dimension, masculinity/femininity, sticks out as somewhat incongruous and dated, with Agneta Moulettes (2007) pointing out that this dimension contributes to reproducing a prejudiced view of both culture and gender. She particularly shines a light on the narrow empirical basis of the sample as we have noted already. As we will discuss in Chapter 7 in relation to employees, distinctions around gender are pertinent and to accept that a framework determined on one gender will be applicable to both is a notable skewed assumption. This phenomenon crops up again later in this chapter in relation to Kohlberg's Cognitive Moral Development model.

With the eroding of the territorial basis for business activities—exemplified by rising international trade, frequent international business travel, and growth in expatriate employment—the robustness and consistency of beliefs and values inherited simply from our cultural origin is likely to be increasingly weakened. For example, a Greek IT consultant with an MBA from Manchester University and five years' experience working for an American bank in Frankfurt might be expected to differ significantly from a Greek IT manager who has always lived and worked in Athens. This suggests that education and employment might also play a significant role in shaping our ethical beliefs and values.

THINK THEORY

Think about Hofstede's 'mental programming' theory of culture in terms of its relevance for ethical decision-making. In the text, we have explained how the dimensions of individualism/collectivism and power distance might influence decision-making. What are the likely influences of masculinity/femininity, uncertainty avoidance, long-term orientation, and indulgence? Is this a helpful way of exploring the cultural influences on ethical decision-making?

Visit the online resources for a suggested response.

EDUCATION AND EMPLOYMENT

The type and quality of education received by individuals, as well as their professional training and experience, might also be considered to be important individual influences on ethical decision-making. For example, early research on US students revealed that business students not only ranked lower in moral development than students in other subjects, such as law, but were also more likely to engage in academic cheating, such as plagiarism, and be driven more by self-centred values than other students (McCabe, Dukerich, and Dutton 1991). More recent studies show a more complex picture of educated student behaviour and note variation in type of cheating, links to personality characteristics, previous deviant behaviour, increasing sense of entitlement, more sophisticated technology for detecting plagiarism, and generational shifts, such as from Millennials to Generation Z (see, for example, Stiles, Chun Wai Wong, and LaBeff 2018).

Similarly, individual values may shift as a result of exposure to particular working environments. **Ethics on Screen 6**, *The Big Short*, gives a chilling depiction of the greed and fraudulent behaviour, which was somehow accepted and normalized, that laid the way for the financial crisis of the late 2000s. The jury is still out on whether much has changed in the sector despite the best efforts of some. Clearly, business training devoid of ethics can reinforce the idea that business is not expected to be concerned with questions of morality. Hence, although some aspects of individual morality may be developed through upbringing and general education, there is also a place for ethics training in enhancing people's ability to recognize and deal with ethics problems in the workplace (Treviño and Nelson 2014). Overall then, while the relationships between ethical decision-making and employment experience and education still remains somewhat unclear (Loe, Ferrell, and Mansfield 2000), some distinctions between those with different educational and professional experience seem to be present. Our hope is certainly that by studying business ethics in the critical and pluralistic fashion we advocate here, you might expand and refine your analytical skills in dealing with ethical issues and problems.

PSYCHOLOGICAL FACTORS

Psychological factors are concerned with cognitive processes; in other words, how people actually think. From an ethical decision-making point of view, knowing about the differences in the cognitive processes of individuals can clearly help us to improve our understanding of how people decide what is the morally right or wrong course of action. We shall look at two of the most prominent psychological factors: cognitive moral development and locus of control.

Cognitive moral development

The most common theory to have been utilized to explain these cognitive processes comes from the psychology discipline, namely Lawrence Kohlberg's (1969) theory of cognitive moral development (CMD). Kohlberg developed CMD theory to explain the different reasoning processes that individuals would use to make ethical judgements as they matured through childhood into adulthood. He suggested that three broad levels of moral development could be discerned, namely:

> **Cognitive moral development** A theory explaining the different levels of moral reasoning that an individual can apply to ethical issues and problems, depending on their cognitive capacity.

- **Level one.** The individual exhibits a concern with self-interest and external rewards and punishments.
- **Level two.** The individual does what is expected of them by others.
- **Level three.** The individual is developing more autonomous decision-making based on principles of rights and justice rather than external influences.

Kohlberg identified two specific stages within each of the three levels, giving six stages of moral development altogether. **Table 4.3** sets out these six stages, providing an illustration of how each stage might be manifested in business ethics decisions.

Table 4.3 Stages of cognitive moral development

Level	Stage	Explanation	Illustration
I Preconventional	1 Obedience and punishment	Individuals define right and wrong according to expected rewards and punishments from authority figures.	While this type of moral reasoning is usually associated with small children, we can also see that business people frequently make unethical decisions because they think their company will either reward it or let it go unpunished (Treviño and Brown 2004).
	2 Instrumental purpose and exchange	Individuals are concerned with their own immediate interests and define right according to whether there is fairness in the exchanges or deals they make to achieve those interests.	An employee might cover for the absence of a co-worker, so that their own absences might subsequently be covered for in return—a 'you scratch my back, I'll scratch yours' reciprocity (Treviño and Nelson 2014: 78).
II Conventional	3 Interpersonal accord, conformity, and mutual expectations	Individuals live up to what is expected of them by their immediate peers and those close to them.	An employee might decide that using company resources, such as the telephone, the internet, and email, for personal use while at work is acceptable because everyone else in their office does it.
	4 Social accord and system maintenance	Individuals' consideration of the expectations of others broadens to social accord more generally, rather than just the specific people around them.	A factory manager may decide to provide employee benefits and salaries above the industry minimum in order to ensure that employees receive wages and conditions deemed acceptable by consumers, pressure groups, or other social groups.
III Post-conventional	5 Social contract and individual rights	Individuals go beyond identifying with others' expectations, and assess right and wrong according to the upholding of basic rights, values, and contracts of society.	The public affairs manager of a food manufacturer may decide to reveal which of the firm's products contain genetically modified ingredients out of respect for consumers' rights to know, even though she is not obliged to by law, and has not been pressurized into doing so by consumers or anyone else.
	6 Universal ethical principles	Individuals will make decisions autonomously based on self-chosen universal ethical principles, such as justice, equality, and rights, which they believe everyone should follow.	A purchasing manager may decide that it would be wrong to continue to buy products or ingredients that were tested on animals because he believes this does not respect animal rights to be free from suffering.

Source: Adapted from Ferrell et al. (2014); Kohlberg (1969); Treviño and Nelson (2014)

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CMD theory proposes that, as one advances through the different stages, one is moving to a 'higher' level of moral reasoning. The important thing to remember about CMD theory, however, is that it is not so much *what* is decided that is at issue, but *how* the decision is reached in terms of the individual's reasoning process. Two people at different levels could conceivably make the same decision, but as a result of different ways of thinking. All the same, Kohlberg argued that the higher the stage of moral reasoning, the more 'ethical' the decision.

Empirical research by Kohlberg and others[4] has led to the conclusion that most people tend to think with level II reasoning (hence its 'conventional' tag). Early research into the cognitive schema of business managers tended to place them at level II (e.g. Weber 1990). This implied that most of us decide what is right according to *what we perceive others to believe*, and according to *what is expected of us by others*. As Treviño and Nelson (2014: 82) suggest, '[Most] individuals aren't autonomous decision-makers who strictly follow an internal moral compass. They look up and around to see what their superiors and their peers are doing and saying, and they use these cues as a guide to action.' Research now finds that there is a different psychological basis according to the nature of the decision made (Stahl and de Luque 2014).

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As we shall see shortly, this implies that there are influences beyond individual cognitive processes. The situational context in which employees might find themselves within their organization is likely to be very influential in shaping their ethical decision-making—although according to Kohlberg, this influence will vary according to whether employees are at sub-stage 3 or 4 in moral development.

Although CMD theory has been very influential in the ethical decision-making literature, there have been numerous criticisms of the theory. It is worth remembering that the theory was initially developed in a non-business context, from interviews with young American males—hardly representative of the vast range of people in business across the globe, hence facing similar criticisms to those we noted in relation to Hofstede's national culture dimensions. It is important to highlight the most notable criticisms of CMD as follows:

- **Gender bias.** Perhaps the most well-known of Kohlberg's critics is one of his former students, Carol Gilligan, who claimed that the theory was gender biased due to its emphasis on the abstract principles esteemed by Kohlberg and his male subjects. As we saw in Chapter 3, Gilligan (1982) argued that women tended to employ an 'ethic of care' in deciding what was morally right, emphasizing empathy, harmony, and the maintenance of interdependent relationships, rather than abstract principles.
- **Implicit value judgements.** Derry (1987) and others have expanded Gilligan's criticism to suggest that CMD privileges rights and justice above numerous other bases of morality, such as those discussed in Chapter 3. Kohlberg has thus interjected his own value judgements regarding the 'most ethical' way of reasoning into what is essentially supposed to be a descriptive theory of how people *actually* think.
- **Invariance of stages.** Kohlberg's contention that we sequentially pass through discrete stages of moral development can be criticized if we observe that people either regress in CMD or, more importantly, if they use different moral reasoning strategies at different times and in different situations. Studies by Fraedrich and Ferrell (1992) and Weber (1990), for example, both revealed cognitive inconsistency among managers across work and non-work situations when making ethical decisions. Essentially, we do not always use the same reasoning when we are at work as we do at home or on the sports field, or

even in different situations at work (Stahl and de Luque 2014). This is the reason why in this chapter we highlight the context dependency of business people's reasoning about ethical problems.

Despite these criticisms, CMD appears to be widely accepted as an important element in the individual influences on ethical decision-making. Various empirical studies have suggested that it at least plays some role in the decision-making process (e.g. Lehnert, Park, and Singh 2015), although its influence appears to be rather more limited than that proposed by Kohlberg.

Locus of control

The second psychological factor commonly identified as an influence on ethical thinking is *locus of control*. An individual's locus of control determines the extent to which he or she believes that they have control over the events in their life.

So someone with a high *internal* locus of control believes that the events in their life can be shaped by their own efforts, whereas someone with a high *external* locus of control believes that events tend to be the result of the actions of others, or luck, or fate. You might think of this in terms of how you might respond if you received a grade for your business ethics exam that was lower than you expected. If you had an external locus of control, you might automatically blame your professor for setting a difficult test, or you might blame Crane, Matten, Glozer, and Spence's book for not preparing you properly. If you had an internal locus of control, however, your first thoughts would probably be more along the lines of questioning whether you had really done enough preparation for the exam.

In terms of ethical decision-making, Treviño and Nelson (2014) suggest that those with a strong internal locus of control might be expected to be more likely to consider the consequences of their actions for others, and may take more responsibility for their actions. Internals may also be more likely to stick to their own beliefs, and thus be more resistant to peer-group pressure to act in a way that violates those beliefs. However, there has not actually been a great deal of empirical research on the effects of locus of control on ethical decision-making in business. What research has been conducted, though, gives a generally mixed picture: while some early studies discerned no significant effect (e.g. Singhapakdi and Vitell 1990), others have identified a noticeable influence (e.g. Chiu 2003).

Overall, even among the individual factors, it would appear that locus of control has, at most, only a relatively limited effect on ethical decision-making. Nonetheless, understanding whether your co-workers have internal or external loci of control can be important for predicting how they will respond to business ethics problems, and particularly how they apportion blame or offer approbation when faced with the consequences of those decisions.

Ultimately, factors such as demographics, experience, psychological factors, and other personality factors can only ever tell us so much about ethical decision-making, perhaps because they only have a relatively indirect effect on how we might actually decide in any given situation. A more immediate relationship to decision-making is perhaps provided by our next three individual factors—values, integrity, and moral imagination.

PERSONAL VALUES

Conventionally speaking, **personal values** might be regarded as 'the moral principles or accepted standards of a person'.[5] This makes sense superficially, but such a view does not capture what is distinctive about values and sets them apart from, say, principles or standards. Sociologists, psychologists, philosophers, and others have therefore invested a great deal of work in defining, identifying, and even measuring the values that we have, giving rise to a diverse and multi-faceted literature. Probably the most frequently cited definition from a psychological point of view comes from early work by Milton Rokeach (1973: 5) who stated that a personal value is an 'enduring belief that a specific mode of conduct or end-state of existence is personally or socially preferable to an opposite or converse mode of conduct or end-state'.

Personal values Individual beliefs about desirable behaviours and goals that are stable over time and which influence decision-making.

This means that values are about the behaviours and things that we deem important in life, but crucially, Rokeach identifies that values (i) persist over time (i.e. they are 'enduring'); (ii) influence behaviour (i.e. they are concerned with 'conduct' and 'end-states'); and (iii) are concerned with individual and/or collective well-being (i.e. 'personally or socially preferable'). Hence, common values include examples such as self-respect, freedom, equality, responsibility, and honesty.

Personal values have long been argued to be influential in the type of decisions we make in organizations (Gao 2017). This is particularly true of ethical decisions, since values are key repositories of what we regard to be good/bad and right/wrong. For example, it has been shown that the values of executives influence the extent to which they will encourage CSR initiatives in their companies (Chin et al. 2013; Hemingway 2013). However, knowing that values are important influences is one thing, but finding out exactly what values people have, and which ones influence which decisions, is fraught with difficulty and continues to represent a tricky conceptual and empirical endeavour (Meglino and Ravlin 1998; Gao 2017). After all, researchers such as Rokeach (1973) have suggested that people typically have more than 70 operative values, and even among these, some values will be more influential on behaviour than others. Moreover, there is a great deal of disagreement among researchers even over whether values can be relied upon to predict behaviour or whether environmental influences should be given greater emphasis (Gao 2017). Researchers have found that, although individuals may espouse certain values, they also have a number of unconscious biases that shape their decision-making (Banaji et al. 2003). That is, although most people might consciously abhor racism or sexism, many of us actually make racist or sexist decisions without even knowing it. As Banaji et al. (2003) conclude, it turns out that most of us are not nearly as ethical as we like to think.

Whatever the case, values are clearly an important aspect of ethical decision-making, and corporations are increasingly recognizing that they cannot simply ignore their employees' personal values in tackling ethical problems in their business. PIC, the biotechnology multinational whose business 'is the genetic improvement of pigs', puts it this way: 'personal values describe the way we operate as individuals—we expect them to guide the decisions and behaviour of our employees around the world'. The company has identified three personal values—integrity, respect, and innovation—that its employees should possess, stressing that 'we are honest and ethical in all aspects of our business'.[6]

This kind of attention to values has been particularly evident at the level of corporate or *organizational values*. Many companies have attempted to set out what values their organization has, or stands for, and, as we will see in Chapter 5, values statements and codes of conduct based on core organizational values have probably been the most common approaches to managing business ethics over the years. Perhaps unsurprisingly, an alignment of personal and organizational values—the idea of values congruency—is typically seen as an ideal basis for developing good working relations and for empowering, retaining, and motivating staff (Posner 2010; Byza et al. 2017). However, it is unclear whether such a situation is necessarily better for encouraging ethical decision-making. For example, employees in professions such as education, medicine, pharmacy, accountancy, and journalism might see dangers in aligning their professional ethics with the increasingly market-oriented values of their organizations. As such, employees are often called upon to exercise personal integrity in the face of such ethical challenges. **Practitioner Spotlight 4** on Rajiv Williams from Jindal Stainless is a great example of a business person trying to lead within their business at the highest levels of integrity.

PERSONAL INTEGRITY

Integrity is typically seen as one of the most important characteristics of an ethical person, or, as we saw in Chapter 3, of a 'virtuous' decision-maker. As such, it is no surprise that **personal integrity** has increasingly surfaced in relation to ethical decision-making, most particularly in relation to the behaviour of leaders (e.g. Krylova, Jolly, and Phillips 2017), although why integrity is not well researched among, for example, workers in general is not clear. Although a variety of meanings are applied to integrity, the core meaning generally refers to integrity as *consistency* (Brown 2005: 5). More precisely, other elements that are sometimes mentioned are wholeness, consistency of words and actions, consistency in adversity, being true to oneself, and moral/ethical behaviour (Krylova, Jolly, and Phillips 2017).

Personal integrity An individual's adherence to a consistent set of moral principles or values.

The original meaning of the word 'integrity' is indeed concerned with unity and wholeness, and we can see that an adherence to moral principles essentially means that one maintains a consistency or unity in one's beliefs and actions, regardless of any inducement or temptation to deviate from them. Another way of looking at this is to consider integrity as being a matter of 'walking the talk', i.e. being consistent in word and action (Brown 2005). Integrity is a buzz word in many highly visible arenas—whether match-fixing in sport, promise-breaking in politics, intrusive journalism, or plagiarism in academia—as well as the full gamut of unethical business practice that goes against claims of good behaviour.

Integrity frequently plays a central role in incidents of **whistleblowing**, which refers to acts by employees to expose their employers for perceived ethical violations. If, for instance, an engineer identifies a safety problem with one of their firm's products, they may decide to tell their work colleagues or their boss. As a result, the engineer may be encouraged to ignore the problem or desist from taking any further action as their superiors have taken on responsibility for the issue. However, if the problem persists, even after further warnings from the engineer, they may choose to reveal the problem—or 'blow the whistle'—by approaching an industry regulator, a journalist, or some other outside agency.

Whistleblowing Intentional acts by employees to expose, either internally or externally, perceived ethical or legal violations by their organization.

PRACTITIONER SPOTLIGHT 4 Leading ethical decision-making

How do you encourage people to make ethical decisions in organizations? We spoke to **Brig (Brigadier) Rajiv Williams, Yudh Sewa Medal (YSM) (Veteran)** who is **Corporate Head of CSR and Sustainability at Jindal Stainless Limited Group of Companies** in India about how he shapes the company CSR vision and encourages colleagues to speak the 'Language of the Heart'.

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Can you tell us a bit about where you work? Founded in 1970, Jindal Stainless is now one of the largest stainless steel conglomerates in India and ranks among the top ten stainless steel conglomerates in the world. My current job role is to steer the company's CSR and Sustainability agenda, which stems from the company's vision statement, 'to improve lives through trustworthy and innovative stainless solutions'. This vision drives our external and internal engagements around our CSR and Sustainability initiatives. The idea of 'Respect' remains core to our 'Beyond Business' focus and our work covers areas such as: corporate-community involvement, education and skills training, healthcare, women empowerment, agriculture extension projects, environmental and rural development, and human rights.

What has been your career path to date? I spent 33 years in the Indian Army, before seeking voluntary retirement at the rank of a Brig General. I believe formal education was not a mandatory requirement for me personally to pursue 'Beyond Business Activities' and I have led the CSR and Sustainability department of Jindal Stainless Limited for the past 13 years. I am now a member of the Confederation of Indian Industries (CII) National CSR Council and several other CII Committees on themes of Water, Backward District, and Affirmative Action. I am also an advisor to advocacy groups, academic institutions, a member of the Governing Council of UN Global Compact Network India (GCNI), convening the Human Rights Committee, and a member of the UN Women Empowerment Principles (WEP) Leadership Group, New York. I am proud to say that I have received many awards for my work in CSR, including recent accolades from the World CSR Congress and the All India Council of Human Rights, Liberties, and Social Justice.

What practical skills are needed to do your job? It is key to get the 'buy in' of the Managing Director (MD) of a Company into CSR and Sustainability initiatives in order to get the rest of the senior management team to follow without reservations. Hence, I have to be ethically and practically correct when I present options to the MD, with clear time lines and accurate budgets. The basic tenet to be successful in CSR is acquiring ground knowledge and developing good written and verbal communication skills. I sincerely believe in breaking communication barriers through speaking the 'Language of the Heart'. Overall, the practical skills needed to do my job involve understanding the various components of CSR and Sustainability through a 'People'-centric approach. All the three 'P's' of CSR i.e. 'People, Planet, and Profit' are all focused on the first 'P' i.e. 'People'. Once we understand the importance of the first 'P' then the understanding of the other Ps becomes clearer.

What are the key benefits and challenges of your role? It is essential in my role to be morally and socially relevant and to have confidence in my command to enable my subordinates to work independently. Obviously I do expect that initially every problem can have a prescribed solution, but I believe that an initial period of hand-holding helps my team to build upon their capacities and drives ethical decision-making. I also expect absolute loyalty from my colleagues and insist they regularly share their concerns. I feel with such a positioning, the challenges of controlling business activities across geographies becomes easier and ethically correct, without overstepping the independence of my subordinates.

If you could change one big world issue, what would it be? If I could change one issue, I would think of 'Respect'. This is the basic tenet of ethical conduct. With 'Respect' for 'People', 'Planet', and the ethical practice of 'Profits', I feel all business will be sustainable and long lasting.

SOURCES

http://www.jindalstainless.com

https://www.cii.in

http://globalcompact.in

http://www.worldcsrcongress.com

Visit the online resources for more Practitioner Spotlight interviews.

Although there are clearly various other factors involved, such acts of external whistleblowing often require the employee to maintain their personal integrity or commitment to a set of principles despite being confronted with numerous difficulties, obstacles, and opposition. This is because the organizational context within which individuals elect to blow the whistle can act as a powerful force in suppressing personal integrity in favour of the priorities and goals of the organization. Also, whistleblowers are often faced with a range of negative consequences for their actions. This includes victimization by colleagues or superiors as a result of their 'betrayal'; being passed over for promotion; job loss; even 'blacklisting' to prevent them getting another job in the same field (Rothschild and Miethe 1999).

It is worth noting that some of the more spectacular cases have occurred outside of the private business sector, reiterating the relevance for business ethics in other sectors of society beyond corporations. **Ethics in Action 4.1** provides some prominent examples of whistleblowers and notes some of the fall-out for the individuals concerned. It starts with reference to a case in the UK's National Health Service (NHS), and an inquiry into the Mid-Staffordshire Foundation Trust, which was ordered because of appalling suffering of patients and an extreme failing of proper management. The *Guardian* newspaper subsequently reported that 'staff who have sounded the alarm (in this case) about dangerous practices have found themselves shunned, suspended and sacked by hospital bosses instead of having their concerns taken seriously' (Campbell and Weaver 2015).

Acts of ethical decision-making like these, especially where the consequences for the individual are so severe, are clearly driven by a considerable degree of personal integrity on the part of the whistleblower. But even more commonplace ethical violations, which have much less potential downside, require significant adherence to a set of principles in order for people to report on them. Think, for example, of a situation where all of your work colleagues habitually steal small items of company property from the storeroom. A group can easily see this as acceptable simply because everyone does it. If this was something that you thought was wrong, it might require some degree of integrity—that is, adherence to your moral principles—to register your disapproval with your colleagues, and it may need some courage to report it to a superior whose reaction you cannot easily predict.

The exercising of integrity, therefore, often requires some level of protection from possible recrimination. For example, in some countries, regulators have sought to provide legal protection for whistleblowers. In the US, Sarbanes–Oxley regulations require companies listed on US stock exchanges to adopt methods for anonymous reporting of ethical and legal violations to an audit committee of the board of directors. In Europe, companies listed in the US are also covered by this legislation, but overall the picture is somewhat confused, especially since some US companies found that their global whistleblower procedures actually contravened EU data protection law. While in some countries there is an institutional structure that facilitates free disclosure by employees (e.g. 'openness laws' in Sweden, and works councils in Germany), others, such as Norway, Romania, and the UK, have specific whistleblower protection laws.

Despite increasing attention to the importance of the issue of integrity, especially in the context of ethical leadership (e.g. Bauman 2013), most descriptive models of ethical decision-making have not tended to include it as a factor influencing how we decide in business ethics matters. While it would appear that this might be likely to change as we start to learn more about its role and effects, for the moment business ethics scholars seem to be somewhat uncertain as to how and why personal integrity affects the process of ethical decision-making.

MORAL IMAGINATION

Finally, another individual factor that has been accorded increasing attention in business ethics over the past few years is moral imagination. Moral imagination is concerned less with whether one has, or sticks to, a set of moral values, but more with whether one has 'a sense of the variety of possibilities and moral consequences of their decisions, the ability to imagine a wide range of possible issues, consequences, and solutions' (Werhane 1998: 76). This means that moral imagination is the creativity with which an individual is able to reflect about an ethical dilemma.

Interest in moral imagination has been driven by the recognition that people often disregard their personal moralities and moral considerations while at work (Jackall 1988). According to Werhane (1998), higher levels of moral imagination can allow us to see beyond the rules of the game that seem to be operating in the workplace, and beyond the day-to-day supposed 'realities' of organizational life, so as to question prevailing ways of framing and addressing organizational problems. Thus, rather than accepting the usual organizational recipe for looking at, prioritizing, and dealing with things, those with greater moral imagination should be able to envisage a greater set of moral problems, perspectives, and outcomes.

As with personal integrity, moral imagination has yet to be included in typical models of ethical decision-making, but it is gradually being subjected to empirical testing. For example, Godwin (2015) found that individuals who exercised moral imagination were more likely to generate mutually beneficial outcomes for business and society than those who did not. More broadly, though, moral imagination also holds significant potential for helping us to uncover why some people are more likely to just follow the herd in relation to ethical issues while others are able to think about different alternatives and perspectives. This is a vital issue if we are to understand the relative influence of our two sets of factors, individual and situational. Hence, it would seem timely now to consider in more depth the second of our sets of factors, namely those dealing with the situation in which the decision is taking place.

SITUATIONAL INFLUENCES ON DECISION-MAKING

The preceding section sought to examine the influence of various differences between individuals on the decisions they make when faced with ethical problems. However, as we saw, these decisions, and perhaps more importantly, the things people in business actually do, cannot be successfully explained simply in terms of such individual traits. After all, many people appear to have 'multiple ethical selves' (Treviño and Nelson 2014: 252)—that is, they make different decisions in different situations. In fact, most evidence we have points to situational influences being at least equally important, and probably *more* important, in shaping our ethical decision-making.

There are a number of important factors to consider regarding situational influences. For a start, the decision process we go through will vary greatly according to what type of issue it is that we are dealing with. Some issues will be perceived as relatively unimportant, and will therefore prompt us into fairly limited ethical decision-making, whereas issues seen as more intense may well necessitate deeper, and perhaps somewhat different, moral reflection. For example, if you worked in a bar, you might think rather more deeply about the morality of taking €20 out of the cash register for yourself than you would pouring your friends a couple of unauthorized drinks 'on the house'. These differences in the importance we attach to ethical issues are what we call *issue-related factors*.

At another level, we must also remember that we are, after all, 'social animals'. Hence our beliefs and actions are largely shaped by what we see around us: the group norms, expectations, and roles we are faced with; the nature of the climate in which we work; and the rewards and punishments that we can expect as a consequence of our actions. After all, we have already seen that Kohlberg's theory of cognitive moral development suggests that the majority of us are at a conventional level of morality, which prompts us to seek guidance from those around us. These types of influences are called *context-related factors*.

Accordingly, we can identify two main types of situational influences:

- Issue-related factors.
- Context-related factors.

The principal factors in these two categories, and their likely influence on ethical decision-making, are presented in **Table 4.4** and are discussed in more detail in the following sections.

ISSUE-RELATED FACTORS

Although initially absent from many models of ethical decision-making, issue-related factors have been increasingly recognized as important influences on the decisions business people make when faced with ethical problems. At one level, we need to consider the nature of the ethical issue itself, and in particular its degree of *moral intensity*—that is, how important the issue is to the decision-maker. However, it is also evident that, regardless of the intensity of an issue, we need also to consider how that issue is actually represented within the organization, in that some issues will be presented as important ethical issues while others may not. Hence, we

Ethics in Action 4.1 We need to protect the whistleblowers who save our skins but pay the price

Kate Kenny

The Conversation, 12 May 2015

The recent Francis Report into how poor care at Mid-Staffordshire NHS Foundation Trust was allowed to happen was another lesson in just how valuable whistleblowers are to society; and yet, as a society, we don't seem to care that many struggle to survive.

Whistleblowers perform a vital role in today's world. They alert the public to financial fraud, abuse in institutions, and potential environmental disasters. For years, the NHS ignored attempts by whistleblowers to raise concerns about care that was 'substandard, and sometimes unsafe', while we now know that the Deepwater Horizon disaster of 2010 could have been prevented had BP listened to just one of the many warnings coming from whistleblowers inside the company.

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As well as preventing damaging incidents like these, whistleblowers can also save companies and organizations some serious cash. In recent years, private sector whistleblowers have alerted their bosses to more serious economic crimes than were spotted by all the 'official' fraud-spotters combined—the internal auditors, corporate security personnel, and law enforcers—saving on average $3m per case.

So these people prevent disasters and save money; what's not to admire? In fact, 80% of people in the UK report that they would speak out if they witnessed serious corruption in their organization.

Safety net?

While we may admire whistleblowers and celebrate their bravery, we don't seem to want to help those who struggle for years. The message for many who are forced to go outside their organization is clear: you may never work in your industry again because of your disclosure, and there is zero financial support available to help you.

How does this happen? We know that whistleblowers who go public tend to experience a subtle, informal kind of blacklisting in their industry. Organizations tend not to want to hire well-known whistleblowers, and in the age of Google, it is easy to find out who these people are when a CV arrives on the desk of the human resources manager. This means that a whistleblower who goes public has a high chance of never being re-hired in their area of expertise.

In the UK, the careers of senior and successful doctors and nurses 'were left on the scrapheap' after they attempted to let NHS managers know about dangerous practices, many of which risked patients' lives. Well-known examples from the financial services sector include Eileen Foster, award-winning whistleblower who disclosed mortgage fraud at Countrywide, now Bank of America, and was the subject of a 60 Minutes documentary that received great acclaim. Despite her stellar credentials, not one of her first 145 job applications received a response.

Martin Woods' disclosures to the US Department of Justice led to the biggest ever action to be brought under the US Bank Secrecy Act against his ex-employer, Wachovia, for its facilitation of money-laundering. He thought he had got lucky when he secured a new job with a leading UK private bank. As it turned out, the new firm didn't yet know who he was. When they found out that he was a whistleblower, they withdrew their offer immediately and fought off a court case. As Woods' experience demonstrates, the legislation that exists to prevent potential employers from discriminating against whistleblowers at the recruitment stage is often ineffective.

Paying a price

So these brave individuals are often left with no job, no income, and a mounting pile of bills, including for legal and medical costs that typically accompany a lengthy, and usually stressful, whistleblowing campaign against a retaliatory organization. It doesn't help that whistleblowers who disclose serious and systemic wrongdoing tend to be in senior positions, and often have families to support. The cost of disclosing, it seems, can be bankruptcy. Would four out of five Britons really speak up in the case of serious wrongdoing, if they knew the full extent of the sacrifice that might be required? The situation is dangerous; we can assume that this fact is currently discouraging the many would-be whistleblowers who have taken the time to consider the likely outcomes for themselves and their families.

What can be done about this? Legislation exists that grants whistleblowers some compensation if they can prove that they have been let go from their organization as a result of their disclosures. However, not everyone is successful in bringing a case, and it costs money to get the legal help needed to pursue this.

To remedy the situation, advocacy groups like Whistleblowers UK have proposed that a support fund be created, generated from the fines paid by organizations when they are penalized for wrongdoing, and administered by an independent 'Office of the Whistleblower'. This is one solution. The bounty system in the US, by which successful whistleblowers receive a pay-out based on a percentage of the money that their disclosure has saved the US government, is another. Similar schemes have been mooted in Europe, to some controversy.

Whatever your view, it is clear that something needs to change. First, we need to know more about the full costs of whistleblowing for those who leave their organization, and about the kinds of interventions that might help to rehabilitate careers if individuals find themselves in this situation. Once we have this knowledge, then we can begin to plan how we can help people to survive after they have risked their incomes and possibly their lives for our sakes.

SOURCE

Kenny, Kate. 2015. We need to protect the whistleblowers who save our skins but pay the price. *The Conversation*, 12 May. Printed under Creative Commons licence. This article was originally published by *The Conversation*. The original article can be accessed here: https://theconversation.com/we-need-to-protect-the-whistleblowers-who-save-our-skins-but-pay-the-price-41635.

The report referred to can be accessed here: http://webarchive.nationalarchives.gov.uk/20150407084003/http://www.midstaffspublicinquiry.com.

QUESTION

Think about the examples of whistleblowing given in relation to the ethical decision-making models. Do they explain the actions of the whistleblowers? How about the managers who responded to the exposure of misconduct and scandal?

Visit the online resources for web links to useful sources of further information and a suggested response to this feature.

need to also consider the issue's *moral framing*. Such issue-related factors have been shown to influence both whether an individual actually recognizes the moral nature of a problem in the first place (i.e. the moral recognition stage) and also the way that people actually think about and act upon the problem (the subsequent stages in the ethical decision-making process).

Moral intensity

The notion of moral intensity was initially proposed by Thomas Jones (1991) as a way of expanding ethical decision-making models to incorporate the idea that the relative importance

Table 4.4 Situational influences on ethical decision-making

Type of factor	Factor	Influence on ethical decision-making
Issue-related	Moral intensity	Evidence suggests significant effect on ethical decision-making
	Moral framing	Most studies show strong influence on some aspects of the ethical decision-making process, most notably moral awareness
Context-related	Rewards	Strong evidence of relationship between rewards/punishments and ethical behaviour, although other stages in ethical decision-making have been less investigated
	Authority	Good general support for a significant influence from immediate superiors and top management on ethical decision-making of subordinates.
	Bureaucracy	Significant influence on ethical decision-making well documented, but actually exposed to only limited empirical research. Hence, specific consequences for ethical decision-making remain contested
	Work roles	Some influence likely, but lack of empirical evidence to date
	Organizational culture	Strong overall influence, although implications of relationship between culture and ethical decision-making remain contested
	National context	Limited empirical investigation, but evidence suggests a clear influence at least for some types of decision.

of the ethical issue would itself have some bearing on the process that decision-makers go through when faced with ethical problems. Jones (1991: 374–8) proposes that the intensity of an issue will vary according to six factors:

- **Magnitude of consequences.** This is the expected sum of the harms (or benefits) for those impacted by the problem or action. Obviously, an issue will be felt more intensely if the consequences are significant, such as health problems or death as a result of a faulty product.
- **Social consensus.** This is the degree to which people are in agreement over the ethics of the problem or action. Moral intensity is likely to increase when it is certain that an act will be deemed unethical by others.
- **Probability of effect.** This refers to the likelihood that the harms (or benefits) are actually going to happen.
- **Temporal immediacy.** This is concerned with the speed with which the consequences are likely to occur. When outcomes are likely to take years to have much effect, decision-makers may perceive the moral intensity to be much lower – for example in the case of the long-term effects of smoking or other 'unhealthy' products.
- **Proximity.** This factor deals with the feeling of nearness (social, cultural, psychological, or physical) the decision-maker has for those impacted by their decision. For example, poor working conditions in one's own country might be experienced as a more intense moral issue than poor conditions in a faraway country.

- **Concentration of effect.** Here we are concerned with the extent to which the consequences of the action are concentrated heavily on a few or lightly on many. For example, many people may feel that cheating a person out of €100 is much more morally intense than cheating the same sum out of a large multinational with millions of shareholders.

Jones' (1991) original formulation of moral intensity is theoretical (based largely on social psychology), but we can see its relevance in real cases of business ethics. Consider the collapse of the Rana Plaza garment factory building in Bangladesh in 2013, which we will discuss further in Chapter 7 in relation to employees. The social consensus around 'sweatshop' labour conditions already gave the issue a relatively high degree of intensity, but the factory collapse brought unprecedented global attention because of the magnitude of the consequences (more than a thousand deaths), their temporal immediacy, and the concentration of effects (it all happened in one building). And even though the events happened in a country far away from Western consumers, the fact that major brand logos (such as Benetton, Joe Fresh, and Primark) appeared in the news and there was online coverage of the accident gave the event a strong 'virtual' proximity. Boosted by those factors, the moral intensity of this event resulted in a comprehensive private industry agreement, the 'Accord on Fire and Building Safety in Bangladesh' which has been signed by more than 150 companies globally.[7]

Moral intensity's role in ethical decision-making has also been exposed to empirical testing, providing good support for Jones' original propositions. O'Fallon and Butterfield (2005), for example, reviewed 32 such studies and concluded that there was strong support for the influence of moral intensity on ethical decision-making, especially with respect to magnitude of consequences and social consensus. However, we would suggest that the intensity of an issue is not necessarily an objective, factual variable, but rather depends on how the issue and its intensity are understood and made meaningful within and around organizations. This is where moral framing comes in.

Moral framing

While it may be possible to determine the degree of intensity that a moral issue should have for decision-makers according to Jones' (1991) six variables, it is clear that people in different contexts are likely to perceive that intensity differently. The same problem or dilemma can be perceived very differently according to the way that the issue is framed. For example, imagine that a student talks about 'cutting and pasting some material from the internet' into their assignment. This may sound quite innocuous. But imagine that if instead the student says, 'I plagiarized something I found on the internet', or even, 'I stole someone's ideas and passed them off as my own'. This would give a very different impression, and would make us sense a deeper moral importance about the student's actions. The moral framing of an issue—i.e. the language used to expose or mask the ethical nature of the issue—is therefore a key influence on ethical decision-making.

Moral framing The use of language to expose or mask the ethical nature of certain behaviours or decisions. It is mostly used to make an unethical action look more acceptable to oneself and/or third parties.

As we can see from the example above, probably the most important aspect of moral framing is the language in which moral issues are couched. This is because using moral language—whether negative terms such as stealing or cheating, or positive terms like fairness or honesty—is likely to prompt us to think about morality because the words are already associated with cognitive categories that consist of moral content. The problem is that many people in business are reluctant to ascribe moral terms to their work, even if acting for moral reasons or if their actions have obvious moral consequences. Bird and Waters (1989) describe this as *moral muteness*. Bird and Waters' study found that groups of managers tend to reframe moral actions and motives, and talk instead of doing things for reasons of practicality, organizational interests, and economic good sense. According to Bird and Waters (1989), managers do this out of concerns regarding perceived threats to:

- **Harmony**. Managers believe that moral talk disturbs organizational harmony by provoking confrontation, recrimination, and finger-pointing.
- **Efficiency**. Managers feel that moral talk clouds issues, making decision-making more difficult, time consuming, and inflexible.
- **Image of power and effectiveness**. Managers believe that their own image will suffer since being associated with ethics is typically seen as idealistic and utopian, and lacking sufficient robustness for effective management.

These are very real concerns for people employed at all levels in companies, and the dangers not only of moral talk but of being seen as overly involved in business ethics can impact negatively on employees working in organizations where such issues are viewed with suspicion. Andrew Crane's (2001) study of managers involved in environmental programmes highlights some of these concerns and problems, suggesting that fears of being marginalized can lead managers to engage in a process of *amoralization*. That is, they seek to distance themselves and their projects from being defined as ethically motivated or ethical in nature, and instead build a picture of corporate rationality suffused with justifications of corporate self-interest. On the positive side, this means that managers may well be able to make what they see as morally good decisions, even ones driven by a strong set of personal values, providing they couch the decision in business terms (Watson 2003). On the flip side, the process of amoralization may mean that even ostensibly 'intense' ethical issues may be seen by co-workers and others as simply a business problem rather than a moral one. Like Hofstede and Kohlberg's work before them, it has been noted that the cultures of those researched may have an impact on the findings in the case of the last three studies mentioned. Bird and Waters did their research on managers working in North America, and Crane and Watson on managers working in the UK. After further research, Petra Molthan-Hill (2014) argues that the resulting framework of moral muteness is most relevant to Anglo-Saxon managers—not, for example, German ones, who sometimes give greater weight to moral over financial arguments in relation to corporate greening. This finding is, however, in sharp contrast to the circumstances in Case 4 on the Volkswagen emissions scandal.

Moral framing can also occur after a decision has been made or an act carried out. It is important therefore to look not just at what people decide, but how they then justify their decisions to themselves and others. Anand et al. (2004: 39) call these justifications *rationalization tactics*—namely 'mental strategies that allow employees (and others around them) to view their corrupt acts as justified'. They identify six such strategies—denial of responsibility, denial of injury, denial of victim, social weighting, appeal to higher loyalties, and the metaphor of the ledger—which are described and illustrated in **Table 4.5**. People in organizations

Table 4.5 Rationalizing unethical behaviour

Strategy	Description	Examples
Denial of responsibility	The actors engaged in corrupt behaviours perceive that they have no other choice than to participate in such activities.	'What can I do? My arm is being twisted.' 'It is none of my business what the corporation does in overseas bribery.'
Denial of injury	The actors are convinced that no one is harmed by their actions; hence the actions are not really corrupt.	'No one was really harmed.' 'It could have been worse.'
Denial of victim	The actors counter any blame for their actions by arguing that the violated party deserved whatever happened.	'They deserved it.' 'They chose to participate.'
Social weighting	The actors assume two practices that moderate the salience of corrupt behaviour: 1. Condemn the condemner; 2. Selective social comparison.	'You have no right to criticize us.' 'Others are worse than we are.'
Appeal to higher loyalties	The actors argue that their violation of norms is due to their attempt to realize a higher-order value.	'We answered to a more important cause.' 'I would not report it because of my loyalty to my boss.'
Metaphor of the ledger	The actors argue that they are entitled to indulge in deviant behaviours because of their accrued credits (time and effort) in their jobs.	'It's all right for me to use the internet for personal reasons at work. After all, I do work overtime.'

Source: Republished with permission of Academy of Management, from Anand, V., Ashforth, B.E., and Joshi, M. 2004. Business as usual: the acceptance and perpetuation of corruption in organizations. *Academy of Management Executive*, 18 (2): 39–53 (Table 1, p. 41); permission conveyed through Copyright Clearance Center, Inc

tend to use these rationalizations in order to neutralize regrets and negative associations of unethical practices.

Again, one of the most important factors abetting this type of rationalizing is euphemistic language, 'which enables individuals engaging in corruption to describe their acts in ways that make them appear inoffensive' (Anand, Ashforth, and Joshi 2004: 47). The authors give the example of Nazi doctors working at Auschwitz referring to execution by lethal injection as 'euthanasia' or 'preventative medicine', but it is easy to see in contemporary corporate terms such as 'corporate restructuring' (i.e. downsizing and massive lay-offs) and 'facilitation payments' (i.e. bribes) that euphemistic language is prevalent in everyday business practice. In fact, these sorts of framings easily become socialized within organizations over time, thereby creating a context that repeatedly shapes ethical decision-making, as we shall now see.

In Ethics in Action 4.2 Scott Taylor brings some of the themes we have been discussing together by introducing the case of beer firm Brew Dog as an example of a 'rebel business', which plays on at best edgy and at worst downright offensive tactics to garner business, framing their antics as harmless fun.

Ethics in Action 4.2 Punked? How an upstart brewing company sold up and sold out

Scott Taylor
The Conversation, 13 April 2017

Want to be a multi-millionaire? Well then, start a 'rebel business', generate brand controversy—and then sell it to the capitalists you appeared to despise. That's one way to do it.

Scottish multinational brewery, distiller, and bar chain, BrewDog, is the most recent version of this story. It has attracted a lot of attention recently. First, the firm blamed 'trigger-happy' corporate lawyers for sending out 'cease and desist' letters to small independent bars to protect its trademarking. Now the co-founders have announced they have sold 22% of the company to a US private equity firm, valuing BrewDog at a surprising £1 billion. The two founders are now reported to be around £100 million better off, between them.

There are two stories here. One is about remarkable growth and success selling interesting products. That should be celebrated for job creation, promotion of different beers and spirits—and for provoking a sense of fun while challenging the dysfunctions of contemporary capitalism. But there's also another story that feels less good. It is a tale of a company which carefully identifies ways to generate publicity, no matter how offensive (a beer called 'Trashy Blonde', anyone?)—and which attracts some hard questions about corporate culture that don't suggest a rebellious workplace encouraging freedom of thought. And in the final chapter, there is a rapid move from challenging capitalism to embodying it. It's not easy trading on rebellion.

Monetized, not televised

But rebellion sells. Since the 1950s, when Hollywood filmmakers realized that young people would pay to get into cinemas to find out more about the Californian youth culture that surrounded Los Angeles, capitalists have been making money out of rebellion. North American cultural commentator Thomas Frank provided an early account of 'the conquest of cool', noting how Gil Scott Heron's raw, angry, anti-capitalist poem/song *The Revolution Will Not Be Televised* became central to a Nike advertising campaign.

Finding the latest nonconformity to be monetized can even be a job. Novelist William Gibson, an acute observer of contemporary capitalism, created a trilogy of books around a 'coolhunter' who identified what trends would move from the inner cities to provincial high streets.

As Gibson knows, punk in particular sells: t-shirts, boots, trousers, music—and, recently, beer. The idea of punk is inherently plastic—it cuts across music, poetry, politics, clothes, hairstyles, even approaches to academic work. As an ethos it's notoriously difficult to define. But that doesn't stop corporate attempts to make money from it—perhaps it even helps.

People like to buy a spirit of rebellion—revolution, even—and, if possible, show that they're resisting capitalism while consuming. But what starts out as fun—as a way of differentiating a t-shirt or a car—can become a millstone, especially if the company grows and the rebel's choice becomes one that everyone makes.

Ker-ching

This is exactly what has happened to a series of small British companies before BrewDog that all started out as rebellious newcomers to well-established markets. Innocent Drinks is probably the best known—the foundation story tells us that it was started by three university friends on a whim. Selling first at a music festival, they decided they could make a living, so they quit their jobs (in advertising—a surprising number of radical start-up rebels work in advertising before founding their own companies) to make juice drinks and smoothies full time.

Innocent's progress was rapid—within ten years turnover and profits categorized it as a large company; it was selling into McDonald's and investors were keen to buy equity from the co-founders. In 2013, after several partial equity purchases, Coca-Cola had a 90% stake in the company.

Does this sound familiar? It should. It's almost exactly what has happened to a string of ostensibly radical, rebellious companies which trade on a very specific ethic. Examples include Green & Black's in confectionery, Ben & Jerry's in food production, The Body Shop in cosmetics, Pret A Manger in fast food, and howies in sportswear.

Each of these organizations began with good rebellious credentials, often being sued by corporate behemoths (as Levi's did to howies), and ended up in the hands of either venture capitalists or as a subsidiary (Cadbury/Mondelez, Unilever, L'Oreal, McDonald's, Timberland). The final, universal part of these stories is that the founders become very wealthy.

Punk power

Consumers continue to make such companies grow through our desire for products that, like a t-shirt with Che Guevara's face on it, tell the world that we're different. The latest British company to go along this road trades very specifically on punk to brand its most popular beer: BrewDog has been producing Punk IPA for almost a decade now. The idea of rebellion is central to this 'postmodern classic' as an 'inherently contradictory take on a classic style'. This branding draws on, and contributes to, BrewDog's desire to be seen as radical in relation to other brewers, conventional shareholder capitalism—and really anyone in a position of authority.

It can be fun, for sure. Dropping toy 'fat cats' from a (branded) rented helicopter over the City of London looks and feels pretty funny, especially as a way of publicizing a very different way of raising capital. But there are consistent objections to the content and tone of BrewDog's marketing, beer names, and expansion plans. These aren't all objections aimed at reducing the amount of fun in the world. There are coherent, clear objections to branding that denigrates women, for example—and there is a good case to suggest that global expansionism is no rebel move, but simply hinders local diversity and development.

So let's not forget the alternatives. You can make world-class products but stay small and local because you've only got one pair of hands. Or you can buy your company back from the multinational so that it's employee-owned, as the folks at howies did. And if you really have to, you can burn the money you make (or could make) from punk. Sometimes rebellion can't be sold.

SOURCE

Scott Taylor (2017) 'Punked? How an upstart brewing company sold up and sold out', *The Conversation*, 13 April. Printed under Creative Commons licence. This article was originally published by *The Conversation*. The original article can be accessed here: http://theconversation.com/punked-how-an-upstart-brewing-company-sold-up-and-sold-out-76116.

QUESTION

Think about the theory of rationalizing tactics in the context of the BrewDog example—can you imagine how these might have been used to justify the company's practices?

Visit the online resources for a suggested response.

CONTEXT-RELATED FACTORS

Our second group of situational influences are context-related factors. By context, we mean the organizational context in which an employee will be working—especially the expectations and demands placed on them within the work environment that are likely to influence their perceptions of what is the morally right course of action to take. These factors appear to be especially important in shaping ethical decision-making within organizations. Ethics on Screen 4, *Fantastic Beasts and Where to Find Them* is a kind of prequel to the Harry Potter films you might have grown up watching. The contrasting morality of the idyllic magical environment in which wizard Newt Scamander cares for magical creatures and the harsh, cold rules and procedures of the Magical Congress of the United States of America forms and influences the decision-making of the characters caught in these worlds. Just as importantly for the management of business ethics, these contextual factors are also, as we shall see, probably the main factors that can be addressed in order to *improve* ethical decision-making in the workplace.

Systems of reward

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We tend to take it for granted that people are likely to do what they are rewarded for—for example, many organizations offer commission or bonuses for salespeople in order to motivate them to achieve greater numbers of sales—yet it is easy to forget that this has implications for ethical conduct too. For example, if an organization rewards its salespeople for the number of sales they make, then those salespeople may be tempted to compromise ethical standards in their dealings with customers in order to earn more commission. This would particularly be the case if the organization did not appear to punish those salespeople who were seen to behave unethically towards their customers, for example by exaggerating a product's benefits or misleading customers about a competitor's products. Quite simply, ethical violations that go unpunished are likely to be repeated.

Similarly, adherence to ethical principles and standards stands less chance of being repeated and spread throughout a company when it goes unnoticed and unrewarded—or still worse, when it is actually punished, as we saw with the example of whistleblowing above. In fact, survey evidence suggests that something like one in five employees actually experiences some form of retaliation for reporting ethical misconduct—and as a result, around 40% who observe misconduct do not report it (Ethics Resource Center 2014). Sometimes, however, the effects of rewards and punishments may not even be direct; employees may sense the prevailing approach to business ethics in their organization by looking at who gets promoted and who does not, or who seems to get the favour of the boss and who does not, and interpret 'correct' behaviour from the experiences of their more or less fortunate colleagues.

There is considerable evidence to suggest that employees' ethical decision-making is indeed influenced by the systems of reward they see operating in the workplace. We have already seen in the previous section how Crane's (2001) research revealed that fears of marginalization and lack of progression could influence managers to avoid the explicit moral framing of problems and issues. Robert Jackall's (1988) extensive research into American managers' rules for success in the workplace further reveals that what is regarded as 'right' in the workplace is often that which gets rewarded. For instance, he reports a former vice-president of a large firm saying: 'What is right in the corporation is not what is right in a man's home or in his church. *What is right in the corporation is what the guy above you wants from you.* That's what morality is in the corporation' (Jackall 1988: 6).

Tony Watson (1998) contends that managers are actually more likely to take a balanced approach, whereby pragmatic concerns and instrumental rewards are consciously interwoven with moral considerations in management decision-making. Survey work, however, has certainly tended to support a strong relationship between rewards and ethical behaviour, with the majority of studies revealing a significant correlation between rewards and sanctions and ethical and unethical behaviour (Craft 2013; Loe, Ferrell, and Mansfield 2000).

Authority

This leads us to also consider the issue of authority, which is the exercise of hierarchical power by managers on subordinates. People do not just do what gets rewarded, they do what they are told to do—or perhaps more correctly, what they *think* they are being told to do. Sometimes this can be a direct instruction from a superior to do something that the subordinate does not question because of their lower status in the hierarchy. At other times, the manager may not be directly instructing the employee to do something unethical; however, their instructions to the employee may appear to leave little option but to act in a questionable manner. For example, a university professor may ask their PhD student to grade 200 undergraduate exam scripts in two days, leaving the PhD student insufficient time to even read all of the scripts, let alone mark them competently. As a result, the student might resort to grading the scripts in an arbitrary and unfair way.

4

Authority The exercise of hierarchical power to compel a subordinate to act in a certain way. It is a key factor in shaping ethical decisions because employees tend to follow the explicit and implicit preferences, orders, and rules of their superiors.

Managers can also have an influence over their subordinates' ethical behaviour by setting a good or bad example (Mayer et al. 2013). Many of us tend to look up to our superiors to determine what passes for ethical behaviour in the workplace. Significantly, however, employees sometimes seem to perceive their superiors as lacking in ethical integrity. For example, according to the 2018 Global Business Ethics Survey of employees, based on results from 18 countries:[8]

- In 12 of the countries, over a third of employees do not trust the word of their supervisor.
- In half the countries, over a quarter of employees do not hear managers voicing support for workplace integrity.
- Pressure to compromise standards was felt by more than 1 in 5 employees in most of the countries surveyed.

Clearly, those in authority can influence their employees' ethical decision-making simply by looking the other way when confronted with potential problems. For example, Chhabara (2008) claims that the widespread prevalence of sexual harassment in the workplaces of domestic companies in Asia is at least partly due to lack of attention by managers. Fearing any escalation in complaints and lawsuits, managers avoid instituting the kinds of sexual harassment prevention programmes that may avoid unethical behaviour in the first place. However, with surveys suggesting that the proportion of women experiencing sexual harassment is as much as 40% (China), 47% (India), or even 78% (Pakistan), lack of attention clearly does little to curb the rate of incidence (Chhabara 2008). **Ethical Dilemma 4** provides a specific scenario where you can examine the influence of authority in relation to other individual and situational factors in a real-life scenario.

Bureaucracy

Underlying the influence of rewards, punishments, and authority is the degree of bureaucracy in business organizations. Bureaucracy is a type of formal organization based on rational principles and characterized by detailed rules and procedures, impersonal hierarchical relations, and a fixed division of tasks, illustrated chillingly by the Magical Congress of the United States of America in *Fantastic Beasts and Where to Find Them.*

Bureaucracy A type of formal organization based on rational principles and characterized by detailed rules and procedures, impersonal hierarchical relations, and a fixed division of tasks. It tends to prevent personal moral reflection in favour of prescribed organizational policies.

Based on the work of Max Weber (1947) regarding the bureaucratic form, as well as later discussions of bureaucracy in relation to morality by Robert Jackall (1988), Zygmunt Bauman (1989, 1993), and more recently, Rhodes and Pullen (2018), the bureaucratic dimension has been argued to have a number of negative effects on ethical decision-making:[9] In **Ethics in Action 4.2** the examples of small flexible companies selling (out) to large corporations hints at the loss of autonomy for the acquired firm.

4

- **Suppression of moral autonomy.** Individual morality tends to be subjugated to the functionally specific rules and roles of the bureaucratic organization. Thus, effective bureaucracy essentially 'frees' the individual from moral reflection and decision-making, since they need only to follow the prescribed rules and procedures laid down to achieve organizational goals. This can cause employees to act as 'moral robots', simply following the rules rather than thinking about why they are there or questioning their purpose, just as the officers in the Magical Congress of the United States do in our **Ethics on Screen 4** film: *Fantastic Beasts and Where to Find Them.*
- **Instrumental morality.** The bureaucratic dimension focuses organization members' attentions on the efficient achievement of organizational goals. Hence, morality will be made meaningful only in terms of conformity to established rules for achieving those goals—i.e. instrumentalized—rather than focusing attention on the moral substance of the goals themselves. Accordingly, ethical decision-making will centre around whether 'correct' procedures have been taken to achieve certain goals rather than whether the goals themselves are morally beneficial. Thus, loyalty rather than integrity ultimately becomes the hallmark of bureaucratic morality.
- **Distancing.** Bureaucracy serves to further suppress our own morality by distancing us from the consequences of our actions—for example, a supermarket purchasing manager in London is rarely going to be faced with the effects of their supply negotiations on farm workers producing the supermarket's coffee beans in Colombia.
- **Denial of moral status.** Finally, bureaucracy has been argued to render moral objects, such as people or animals, as things, variables, or a collection of traits. Thus, employees become human 'resources' that are means to some organizational end; consumers are reduced to a collection of preferences on a marketing database; animals become units of production or output that can be processed in a factory. The point is that by dividing tasks and focusing on efficiency, the totality of individuals as moral beings is lost and they are ultimately denied true moral status.

It should be noted, however, that we have highlighted some of the broadly negative aspects of bureaucracy here. There is another side to this story, and there are reasons why bureaucracy and the associated formality that comes with it is prevalent in some form in all larger and complex organizations, business or otherwise. Paul Du Gay, in particular, has sought to remind us of the

ETHICAL DILEMMA 4 Stuck in the middle?

You have recently been appointed to the position of civil engineer in a small town in a developing country. You are responsible for the maintenance of the town's infrastructure, such as public buildings and roads. You are one of the youngest members of the senior management team and report directly to the director of public works. All of the members of the management team have been working for the organization for a very long time, and you feel like something of an outsider. The director of public works, the human resources director, and the CEO often have lunch together, and it is generally felt that most important organizational decisions are made over lunch.

Your position had been vacant for a long time prior to your appointment and the director of public works had assumed responsibility for a number of your current responsibilities. On your appointment, your manager asked you to check with him before implementing any major changes. He also retained the authority to approve major works.

After some time, you realized that despite having a full staff complement, a number of outside contractors were doing various jobs within the organization. When you queried this, the director simply put it down to 'rusty skills', 'a significant backlog', and 'quality of work'. However, you have been impressed with the quality of work that your staff have produced on odd maintenance jobs that you have assigned them. Recently, when you were complimenting one of your supervisors on the way he handled an emergency, he expressed his frustration at being given the 'boring, odd jobs' instead of the 'challenging' projects given to contractors.

You decided to utilize your own staff rather than contractors for the next project because you felt that you would be able to supervise the work better and ensure the right quality. You planned it meticulously and wanted to enlist the support of your manager to ensure that all went well. You prepared all of the paperwork and took it to your manager for discussion. He looked disinterested and simply asked you to leave the paperwork with him because he was preparing for a meeting.

The following week, your manager informed you that he had gone through your paperwork, and asked one of the more experienced contractors to submit a proposal for the job. He told you that he had already discussed this issue with the CEO, because he felt that this was a critical job and the contractors would complete the work within a shorter time than the internal staff. You were very upset about this and asked your manager why he had not involved you in the decision-making process. You are increasingly uncomfortable that you are expected to supervise and authorize payments for contractors whose appointment seems questionable.

QUESTIONS

1. What is the right thing to do in this situation from an ethical point of view? What ethical theory supports your position?
2. If you were the civil engineer, what would you *actually* do? Is your response to this question different to your response to question 1? If so, why?
3. What are the factors that influenced your decision/action? How important is the role of authority on the part of your boss?
4. Do you think that everybody who reads this dilemma will make similar decisions? Why?

This dilemma was kindly prepared by Nelisiwe Dlamini.

Visit the online resources for a suggested response.

good that comes with bureaucracy (2000) and formality (Du Gay and Signe Vikkelsø 2016). In at least some contexts, it is rules, systems, and procedures that protect us—as a passenger in an airplane, a patient in a hospital, or a civilian in a warzone, we are grateful for the pre-established frameworks that guide the practice of the professionals around us.

THINK THEORY

Think about the theory proposed here—that bureaucracy suppresses morality. Consider a bureaucratic organization that you have had personal experience of (e.g. school, university, business, local government, hospital) and try to relate the four effects highlighted here to that organization. Does the theory seem to have much validity in this instance? Are there positive moral perspectives that you can identify that the bureaucracy enables?

Visit the online resources for a suggested response.

Work roles

As we have seen, the bureaucratic organization of work assigns people to specific specializations or tasks that represent work roles. These are patterns of behaviour expected by others from a person occupying a certain position in an organization (Buchanan and Huczynski 2017). Work roles can be *functional*—for example, the role of an accountant, an engineer, or a shop assistant—or they can be *hierarchical*—the role of a director, manager, or supervisor, for example. Roles can encapsulate a whole set of expectations about what to value, how to relate to others, and how to behave.

These expectations are built up during formal education, training, and through experience, and can have a strong influence on a person's behaviour. For example, think about when you are in the lecture theatre or seminar room of your university or college. Most readers of this book probably naturally adopt the role of 'student' in the classroom—listening, taking notes, asking and answering questions when prompted—and the person taking the class will probably naturally adopt the role of 'teacher'. But it would not take much for us to refuse to adopt those roles: for the students to stand up and walk out, or for the teacher to sit down and say nothing. The main reason we do not is the fact that, as a rule, we all seem to know how we are supposed to act and we stick to it fairly faithfully. We accept the formal organizational systems we are a part of and maintain our prescribed roles within them (Du Gay and Vikkelsø 2016).

In the business ethics context, prescribed work roles, and the associated expectations placed on the person adopting the role, would appear to be significant influences on decision-making. Our individual morality, the values and beliefs we might normally hold, can be stifled by our adoption of the values and beliefs embedded in our work role.

While there is considerable evidence supporting a significant impact for work roles on organizational behaviour *generally*, there has been rather limited research to date that has specifically addressed the impact of roles on *ethical* decision-making and behaviour. Nonetheless, the important thing to remember is that many of us will adopt different roles in different contexts, reinforcing this idea of people having multiple ethical selves. For example, many people take on different roles when with their family compared with when they are at work, or with their friends, or in other social situations. Roles are, therefore, not constant traits or facets of our personality (as was the case with our individual factors), but are highly contextual influences on our decision-making and behaviour.

Organizational norms and culture

Another set of potentially powerful influences on ethical decision-making are the group norms that delineate acceptable standards of behaviour within the work community—be this at the level of a small team of workers, a department, or the entire organization. Group norms essentially express the way in which things are, or should be, done in a certain environment, and might relate to ways of acting, talking, justifying, dressing, and even thinking and evaluating. Group norms may well conflict with the official rules or procedures laid down by the organization. For example, a group of office workers may agree among themselves that illegally pirating licensed software from work for home use is perfectly acceptable as an unofficial 'perk' of the job, even if it is officially prohibited. Or in our **Ethics on Screen 4** example in *Fantastic Beasts and Where to Find Them*, the norms of the orphanage are such that when deviant Credence Barebone has done something wrong, he meekly acts according to the extreme rules of his adoptive mother: handing her his own belt, unasked, to enable his physical punishment. As such, group norms tend to be included within a more or less unofficial or informal set of characteristics, including shared values, beliefs, and behaviours that are captured by the notion of **organizational culture**.

Organizational culture The meanings, beliefs, and common-sense knowledge that are shared among members of an organization, and which are represented in taken-for-granted assumptions, norms, and values.

While there are numerous, often conflicting definitions of what organizational culture actually is, at a basic level we can say that it represents the overall environment or climate found within the organization (or certain parts of it). Culture is further said to constitute particular meanings, beliefs, and common-sense knowledge that are shared among the members of the organization, and which are represented in taken-for-granted assumptions, norms, and values.

Organizational culture has been widely identified as a key issue in shaping ethical decision-making. Not only has it been frequently included in models of ethical decision-making (e.g. Ferrell et al. 1989), but it has also been widely examined in empirical investigations (O'Fallon and Butterfield 2005). This is not particularly surprising, for there is wide-ranging evidence, as well as strong conceptual support, for the proposition that culture and ethical decision-making are profoundly interwoven (e.g. Sinclair 1993; Dahler-Larsen 1994; Starkey 1998; Anand et al. 2004).

The organizational culture explanation of ethical decision-making suggests that, as employees become socialized into particular ways of seeing, interpreting, and acting that are broadly shared in their organization, this will shape the kinds of decisions they make when confronted with ethical problems. Such cultural expectations and values can provide a strong influence on what we think of as 'right' and 'wrong'. For example, the failed US energy giant Enron was shown to have developed a culture of dishonesty that culminated in the misleading accounting that brought down the firm in 2001 (Sims and Brinkmann 2003). Similar observations held true for the reasons for the financial crisis of the late 2000s as being rooted in a culture of risk-taking (Langevoort 2010). Our cultural understandings and knowledge can thus act as both facilitators and barriers to ethical reflection and behaviour.

As a consequence of such reasoning, as well as compelling survey evidence (e.g. Ethics Resource Center 2014), many authors, such as Treviño and Nelson (2014) and Ferrell et al. (2014), speak of the need for an 'ethical culture' to enhance and reinforce ethical decision-making. However, as we shall see in Chapter 5 (when we move on to discuss ways of managing business ethics), there is considerable disagreement about how this should be done, or indeed whether it is even possible or desirable. Certainly, it would appear that the deliberate management of culture is an extremely challenging undertaking, and one where many of the outcomes will be unpredictable. Nonetheless, even though it may be unclear how to deal with an organizational culture's influence on ethical decision-making, the very fact that there is some kind of relationship between the two would appear almost irrefutable.

ETHICS ON SCREEN 4 *Fantastic Beasts and Where to Find Them*

Collection Christophel / Alamy Stock Photo

This period was threatening to become very dystopian. You were looking at the rise of a very dark force.

J.K. Rowling

Extending the Harry Potter world of wizardry, J. K. Rowling is penning a series of screenplays for big budget movies. Directed by David Yates, *Fantastic Beasts and Where to Find Them* was the first of the series (followed in 2018 by the second instalment—*The Crimes of Grindelwald*), and helpfully sets the scene for a world in which those with magical powers are in a tense standoff against those without, known in the US context of the film as No-mags (No-magics is the American term for muggles for Harry Potter fans). We meet an array of characters, in both public and private contexts, who have to navigate the ethics of important decisions.

The context is 1926 New York. To give some location in 'real' history, Calvin Coolidge would have been President of the US, and the country was in a relatively prosperous phase leading up to the Great Depression of the early 1930s. Prohibition was in place, meaning that drinking alcohol was illegal and the scourge of the times that was seen as corrupting the youth (there is always something) was jazz music.

While not central to the plot, this context perhaps helps to explain the world into which Newt Scamander (played by Oscar winner Eddie Redmayne) arrives into New York by boat, greeted by the Statue of Liberty, as many immigrants and visitors have done before and since. Newt is a Magizoologist—an awkward scientist-type who cares for magical creatures, and is frankly way more comfortable with them than the human variety, magical or otherwise. In his battered Tardis-like suitcase live a whole host of creatures that seem vaguely recognizable but have additional imaginative features and behaviours.

Through a series of comic events and mishaps Newt quickly meets and eventually befriends No-mag, Jacob Kowalski (played by Dan Fogler), who is bitten by a magical beast and needs to stick with Scamander for his own safety and joins in the coming adventures as a result. Scamander's illicit use of magic (in this world, a license from the Magical Congress of the United States of America—MACUSA—is necessary for just about everything) attracts the attention of disgraced and demoted officer, Porpentina (Tina) Goldstein (played by Katherine Waterston). Along with Tina's mind-reading sister, Queenie (Alison Sudol), these four characters—Newt, Tina, Queenie, and Jacob—are the good heart of the film. Each of these characters is conflicted—Newt by his prioritizing of animals over people; Tina by her commitment to MACUSA but her non-compliance with their rules when her own ethics guide her differently; and Queenie and Jacob by their obvious mutual attraction across the 'divide' of magic/No-mag in an environment in which fraternizing is strictly disallowed. Yet these four make ethical decisions throughout the film, irrespective of the contexts they find themselves in, which put their own lives at risk. Here we see the dominance of the personality over the organizational setting.

A second story line at the organizational and societal level paints somewhat of a different picture, and this is where Rowling really gets political. Keep in mind that she was writing the screenplay as there was a rise of populism around the world which put Donald Trump unexpectedly in the White House, among other things, and that the period of the Great Depression was an enabler for the populist rise of the Fascist right in Europe in the 1930s. Leading the New Salem Philanthropic Society and campaigning for a new round of witch-hunting is the cold character with the creepy name of Mary Lou Barebone, who 'cares' for orphaned magical children who promote her witch-hunt in return for food. She adopts and brutally controls Chastity, Modesty, and Credence. Mary Lou (Samantha Morton) and the family tangle with a right-leaning and jingoistic aspiring politician, and the unnerving Credence, played by Ezra Miller, spies for MACUSA's scary and brutally ambitious Chief of Secret Police, Percival Graves (Colin Farrell). These characters are seemingly caught in a web of control by the organizations they are part of, and restricted by it in their decision-making, while still striving to meet their own, variously vicious goals.

The film ultimately promotes respect and tolerance in the face of repression and segregation—between magical people and No-mags, but also in relation to the outlawed magical beasts. It challenges the value of strict rules to control behaviour—either in a brutal household like the Barebones' or at the state level of MACUSA—which leave little space for individual choice and ethical decision-making.

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Visit the online resources for web links to useful sources of information related to this film.

National and cultural context

Finally, just as the culture of the organization or work group may influence ethical decision-making, so might the country or culture in which the individual's organization is located. This factor varies from the national and cultural characteristics, discussed under the section on Individual influences on ethical decision-making: at that time, we were looking at the nationality of the individual making the decision; now we are considering the nation in which the decision is actually taking place, regardless of the decision-maker's nationality. As we have discussed a number of times in the book so far, to some extent different cultures still maintain different views of what is right and wrong, and these differences have significant effects on whether a moral issue is recognized, and the kind of judgements and behaviours entered into by individuals. For example, a French office manager working in the US may start to become sensitized to different perceptions of what constitutes sexual harassment compared with their colleagues back in France. Or a Danish human resource manager might consider the issue of employment conditions quite differently should they be working in Indonesia rather than at home. However, with globalization eroding some of these national cultural differences, we might expect to see shifts in the influence of this factor, perhaps with more complex effects and interactions emerging.

While some models have incorporated factors relating to the social and cultural environment (e.g. Hunt and Vitell 1986; Ferrell et al. 1989), there has been relatively little empirical research investigating the effect of this on ethical decision-making. However, several key studies suggest that the local national context does indeed have an effect on managers' ethical evaluations (Spicer, Dunfee, and Bailey 2004; Bailey and Spicer 2007). For instance, Bailey and Spicer (2007) demonstrate empirically that the ethical attitudes of expatriate American managers in Russia towards local business practices converge with those of Russian managers despite differences in their individual national identities.

SUMMARY

In this chapter we have discussed the various stages and influences on ethical decision-making in business, so that by now you should have a reasonably clear picture of the overall process and its most important elements. The basic model presented in the chapter provides a clear outline of how these elements fit together, although as we mentioned earlier, this model should be regarded simply as an illustration of the relationships involved, not as a definitive causal model. Having discussed both individual and situational influences on ethical decision-making, we would suggest that some individual factors—such as cognitive moral development, nationality, personal values, and integrity—are clearly influential, particularly on the moral *judgements* made by individuals. However, in terms of *recognizing* ethical problems and actually *acting* in response to them, it is situational factors that appear to be the most influential. This is important because it means that situational factors are likely to be the most promising levers for attempts to manage and improve ethical decision-making in organizations. In particular, the possibilities for addressing organizational culture as a route to managing ethics have been widely alluded to in the literature and provide an important aspect of our discussions.

STUDY QUESTIONS

1. What is the difference between descriptive and normative ethical theories?
2. Set out the four stages in Rest's (1986) ethical decision-making process. What practical use is the model for managers seeking to understand ethical and unethical behaviour in their organizations?
3. Is the prevalence of unethical behaviour in business due to a few 'bad apples' or is it more a case of good apples in bad barrels? How would your answer differ for government or civil society organizations?
4. Describe Kohlberg's theory of cognitive moral development and critically evaluate its contribution to our understanding of ethical decision-making in organizations. What are the main implications of the theory for business leaders?
5. What are the two main types of issue-related factors in ethical decision-making? What is the significance of these factors for managers seeking to prevent ethical violations in their organizations?
6. What are the main impacts of bureaucracy on ethical decision-making? How would you suggest that a highly bureaucratic organization could enhance its employees' ethical decision-making?

Visit the online resources for a suggested response.

RESEARCH EXERCISE

Look at a recent business scandal that has made the headlines. Identify the main people involved in the scandal and investigate their individual characteristics. Then identify the key situational factors that may have influenced their behaviour. Which of these individual and situational factors seem to have been most important in causing the scandal? Would you have any suggestions for how to avoid such a situation recurring in the future?

Visit the online resources for a suggested response.

KEY READINGS

1. Lehnert, K., Park, Y. H., & Singh, N. 2015. Research note and review of the empirical ethical decision-making literature: Boundary conditions and extensions. *Journal of Business Ethics*, 129 (1): 195–219.
   This is a great overview of previous research on the conditions, factors, and influencers in the decision-making process. Despite a raft of research on ethical decision-making (this article reviews another 141, for instance), there is little consensus and a number of remaining questions. This review helps to categorize the previous studies and will be a great resource for anyone looking for other studies relating to a particular area of interest in ethical decision-making.
2. Anand, V., Ashforth, B.E., and Joshi, M. 2004. Business as usual: The acceptance and perpetuation of corruption in organizations. *Academy of Management Executive*, 18 (2): 39–53.
   This article will help you to see why unethical practices persist in organizations, and provides a really helpful way of thinking about how people and organizations respond to corruption.

Visit the online resources for further key reading suggestions.

CASE 4 Volkswagen emissions scandal: who is in the driving seat of ethical decision-making?

Simon Oldham

This case examines the (un)ethical decision-making of the Volkswagen Group leading up to the 2015 emissions scandal, as well as the attempted cover-up. The case focuses on the details of the scandal, its context and eventual discovery, as well as subsequent investigation and actions taken by Volkswagen. It draws upon a range of themes from **Chapter 4**, particularly influences on ethical decision-making, moral development, and organizational culture.

Founded in Wolfsburg, Germany, in 1937 as a military vehicle manufacturer, The Volkswagen Group, or 'VW', grew over the course of the 20th century into a mass manufacturer of cars, motorbikes, and commercial vehicles. Its fame grew with the introduction of classic models such as the Beetle, Golf, and Polo, and it thrived due to the acquisition of and investment in a growing number of other well-known brands, most notably Audi, Seat, and Skoda.

By the beginning of the 21st century, the VW group had not only become a global automotive giant but one of the biggest companies in the world. In 2014 it employed 590,000 employees, generated sales of €202.5 billion, and delivered more than 10 million vehicles to its customers. Alongside its core mass market brands, it boasted a stable of luxury, iconic brands, from Porsche and Bentley to Bugatti and Lamborghini. It was feted for its social and environmental credentials, emphasizing that it believed in championing responsible business, with a long-term focus on the benefit of its customers, employees, the environment, and society.

Yet by the end of 2015, it had become clear that VW had pro-actively engaged in cheating US legislation concerning vehicle emissions through the manipulation of software in 11 million cars worldwide. Beyond the environmental damage caused, in due course the scandal would come to cost the company at least $25 billion, a drop in the company's share of the European car market, an almost 50% drop in share price, the resignation of Martin Winterkorn, Chief Executive of the US division, and the arrest of Rupert Stadler, Audi CEO.

The origins of 'Emissionsgate'

A swathe of environmental legislation was formulated and implemented at the turn of the 21st century, for example the Environmental Protection Act was passed in Denmark in 1992, while the Environment Act was passed in the UK in 1995, and the Canadian Environmental Protection Act was introduced in 1999. This new legislation included, in many cases, heightened scrutiny and control of the environmental impact of automobiles. This was perhaps most apparent in the US, where the introduction of the 1990 Clean Air Act Amendments precipitated a tightening of light-duty vehicle emissions standards designed to reduce environmentally damaging emissions, such as carbon and nitrogen. When introduced in the noughties, this legislative shift led to pressure on automotive manufacturers for a new generation of vehicles which adhered to new emissions standards. However, commercial pressures necessitated that such alterations would not compromise on performance and efficiency, which would heighten the running costs and potentially impact sales.

VW, at a presentation to US regulators in September 2008, promoted their response to the legislation: a generation of re-designed diesel automobiles, which met the country's pollution laws, thus minimizing the smog, soot, and harmful emissions long attributed to diesel engines, while not compromising on performance. Regulators satisfied, this new generation of diesel cars were put on sale to the general public by VW, who were hoping to finally crack the US car market.

However, unbeknownst to US regulators, this new generation of vehicles did not meet the newly imposed emissions legislation as it had proved too difficult to design vehicles which would allow the required balance between emissions and performance. Instead, VW engineers had designed 'defeat devices', which ensured that, when fitted to VW's cars, the vehicles passed the regulatory, lab-based emissions tests. These defeat devices could detect when such a test was being performed through the measurement of factors such as steering patterns, atmospheric pressures, and engine use, and would accordingly alter emissions controls to switch on fume cleaning technology. However, when used on public roads, some models would pump out nitrogen at up to 40 times the legal limit.

Uncovering the problem

In early 2014, transport campaigners Peter Mock and John German set out to prove to Europe that clean diesel cars could exist; the US had appeared to achieve a fantastic result: diesel cars that could pass its strict emissions tests without compromising performance. A 1,300-mile test journey was undertaken from San Diego to Seattle using a number of car models to prove their point. Despite all the models having passed lab-based emissions tests, the VWs tested gave some unusual results, appearing to emit dangerous levels of toxins, some at 35 times the legal limit. As a result of this, the US Environmental Protection Agency (EPA) launched an investigation in May 2014. Volkswagen, after repeating the tests themselves, asserted that the results were caused by a minor software error, which was easily fixable through the issue of a product recall. This denial continued for over a year after the EPA had first launched its investigation until August 2015 when VW finally came clean to senior officials, the EPA, and the California Air Resources Board, admitting that the automotive manufacturer had deliberately misled US regulators through the alteration of vehicle software to cheat emissions tests. VW's confession was allegedly only precipitated by both bodies threatening not to certify the company's 2016 diesel models. Over the following month, the company revealed further details regarding exactly how the software worked to the US regulators and the regulator devised its response to news before, finally, in late September, news of VW's wrongdoings broke to the public.

Initially, when news of the unethical decision-making relating to emissions fixing of 600,000 VW diesel cars in the United States broke, public dismay was evident. However, Michael Horn, head of US operations, assured a congressional committee that the wrongdoing was the result of 'a couple of software engineers' and Dr Winterkorn, VW CEO, publicly stated that he was aware of no wrongdoing on his part. However, the case spiralled, with VW being forced to admit that cars in Europe were also affected later in 2015, increasing the total number affected to 11 million diesel cars across a number of the firm's brands: VW, Audi, Seat, and Skoda, as well as 800,000 petrol cars being affected. Eventually, after investigation by US regulators, it became apparent that the fault did not lie with a small number of rogue software engineers but was in fact a far larger conspiracy involving senior figures within the company and extensive attempts to cover up the wrongdoing.

The roll call of unethical decision-makers

As part of a plea bargain with the US Government, an agreed statement of facts between the US Department of Justice and VW in 2017, and investigations by German authorities, it became clear that the conspiracy had most likely started as early as 2006, when company executives met in Wolfsburg to discuss the intentional inclusion of software that would defeat emissions testing in its vehicles. Accordingly, on top of managers sanctioning the use of these defeat devices in millions of cars that were delivered to customers over a six-year period, from 2009 to 2015, engineers at the company were encouraged to hide their usage, despite objections.

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The scandal appears to have become even murkier when a cover-up operation began in response to US investigators commencing their 2014 investigation. Specifically, VW set up a taskforce to handle official enquiries, designed to give the appearance of co-operation while in fact obfuscating the existence of the defeat device from regulatory bodies. The cover-up, between 2014 and 2015, involved VW executives and engineers feeding regulators false and misleading data, the company issuing a bogus recall of cars which allowed them to inform the regulators that the issue had been rectified as a result of software updates, and thousands of incriminating documents being destroyed just a month before the scandal was made public.

After the scandal broke, German police searched the houses and offices of dozens of VW executives and, in mid-2018, another senior figure within the company, Audi CEO Rupert Stadler, was arrested in Germany due to fears that he might prevent, obstruct, or hinder the investigation. Meanwhile, in the US, authorities indicted six former VW executives, and Oliver Schmidt, VW's former US environmental and engineering manager, was prosecuted in 2017 for being a key conspirator, accused by the US government of misleading investigators and deliberately destroying documents, and sentenced to seven years in prison on top of a $400,000 fine.

The conspiracy took a more serious turn in 2018, when an indictment by US authorities against Michael Winterkorn, former VW CEO, was released, claiming that he not only had full awareness of what engineers were doing but also authorized a continued cover-up. The indictment asserted that engineers at the company had become aware of a study by the International Council on Clean Transport in 2014, which had concluded that VW diesels were producing higher emissions on the road than they were in laboratory tests, and that senior managers were informed, including a memo written concerning the tests which was sent to Dr Winterkorn. Additionally, in July 2015 it is alleged that Dr Winterkorn was given a presentation about the situation, which supposedly included details of the cover-up and the consequences of the regulators finding out, a month before any admissions were made to authorities.

Moreover, in 2017, Robert Bosch, auto components maker, although not conceding any wrongdoing, agreed to pay $327.5 million in compensation for its role in supplying the cheating software, suggesting awareness of the conspiracy was not just confined to individuals within VW.

VW turns over a new leaf

Despite the eruption of the emissions scandal in late 2015, the ensuing public outrage at the dishonesty and disingenuous actions of VW, the enormous financial cost to the company, and the detrimental environmental consequences of its actions, after an initial dip, VW's latest financial results suggest that the company has managed to shrug off any wrongdoing. In fact, if an individual had invested in VW a day before the emissions scandal broke in 2015, as of the beginning of 2018 the stock would be up 10%, having outperformed both BMW and Daimler. Sales at VW exceed those prior to the scandal breaking in 2015, costs have declined, employee numbers have gone up, and plans to release a large range of all electric cars by 2025 have impressed investors and the public alike.

Arguably this is the result of a maelstrom of apologies from the company, massive levels of compensation and fines, damages from the scandal currently totalling $25 billion, and a total restructuring of the group whistle-blowing system. However, extensive investigations by US and European authorities were required to expose the depth of the scandal and its cover-up and, as of 2018, the aftermath appears not to have run its course, despite it being three years since the scandal initially broke. In addition to this, evidence suggests that the environmental and human costs of the fraud dwarf the financial costs incurred by VW, with experts calculating that it directly resulted in 526 ktonnes of nitrogen oxides being emitted above the legal limit. This equates to an economic valuation of life lost totalling $39 billion dollars, not accounting for the incalculable human value of these lost years. Meanwhile, since 2015, questions have been raised about endemic cultural issues of unethical practices and behaviours within the wider automotive industry. Nissan, Daimler, General Motors, Suzuki, and Mitsubishi have all been found to be knowingly engaging in fraudulent practices regarding emissions fixing and fuel economy figures since the VW scandal broke.

Accordingly, the depth of VW's deception, along with its considerable attempts at a cover-up, in tandem with the news that they are not the only automobile manufacturer with the same problem, has led many to question whether these practices have truly been stamped out within the industry or whether future scandals are perhaps an inevitability.

QUESTIONS

1. Outline the main points of the emissions scandal. What role could issues regarding moral intensity have played in the decision-making that led to the scandal?
2. Analyse, using Rest's four-stage model of ethical decision-making, at what stage VW deviated from the model in its decision-making processes regarding the attempted cover-up.
3. What context-related factors could have influenced executives and engineers at VW not to whistle blow on the fraudulent activities?
4. Do you think that VW's senior management handled the scandal well? Could earlier admission of the fraudulent activities have reduced the negative impact on the firm?
5. How could VW seek to improve their approach to ethics management in the future? Can claims that the firm has so quickly changed its culture stand up to scrutiny?

Visit the online resources for a suggested response.

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Visit the online resources for web links to useful sources of further information on this Case.

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NOTES

[1] The English translations are quite misleading, as 'ethics of responsibility' ('*Verantwortungsethik*') sounds more positive than in its original German rendition, whereas 'ethics of absolute ends' ('*Gesinnungsethik*') seems rather narrow for Weber's argument.

[2] For a fascinating review of Max Weber's life and works in social context see his biography by his wife (Weber 2017). Marianne Weber was a prominent feminist and thinker in her own right and wrote the book originally in the 1920s.

[3] There was a particular stream of research comparing managers or business students from different countries in the 1980s and 1990s, but there arguably came a point where the purpose and contribution of these was unclear—the reader is left asking the question 'so what?', especially when the countries compared are pretty random, often simply based on access the researchers have (e.g. Becker and Fritzsche's (1987) study of French, German, and US managers; Lysonski and Gaidis' (1991) study of US, Danish, and New Zealand business students; Nyaw and Ng's (1994) study of Canadian, Japanese, Hong Kong, and Taiwanese business students). Such straightforward comparisons are less common in high-quality research now, and more recent cultural comparative work has become more sophisticated starting with the likes of Jackson's (2001) ten-country study across four continents, or Vidaver-Cohen and Brønn's (2015) focus on Norway, Sweden, and Denmark which have close historical ties and rely heavily on mutual trade but retain cultural differences.

[4] James Rest (1986), whose depiction of the stages of ethical decision-making we presented earlier in the chapter, has been a vigorous proponent of cognitive moral development and devised a widely used measuring instrument called the Defining Issues Test. A summary of some of the vast amount of empirical work carried out can be found in Rest (1986).

[5] *Collins English Dictionary and Thesaurus*, standard edition. 1993. Glasgow: HarperCollins, 1287.

[6] See the company website for more information: http://www.pic.com. It is worth noting that the different country websites have different information on values.

[7] http://bangladeshaccord.org.

[8] http://www.ethics.org/research/gbes. Since 1994, the Ethics & Compliance Initiative (ECI) has conducted a longitudinal, cross-sectional study of workplace conduct, from the employee's perspective.

[9] Criticizing bureaucracy has been a popular pastime for organization scholars for a considerable time, and business ethics writers have also tended to offer largely negative evaluations of the effects of bureaucracy on ethical decision-making. However, for a powerful and eloquent critique of some of these ideas, see Du Gay (2000).

5

Managing Business Ethics

Tools and Techniques of Business Ethics Management

Having completed this chapter you should be able to:

- Explain the nature, evolution, and scope of business ethics management.
- Explain why firms manage their social expectations alongside employee ethical behaviour.
- Critically examine the role of codes of ethics in managing the ethical behaviour of employees.
- Critically examine current theory and practice regarding the management of stakeholder relationships.
- Explain the role of social accounting, auditing, and reporting tools in assessing ethical performance.
- Analyse the tools through which firms develop adequate environmental management systems.
- Understand different ways of organizing for the management of business ethics.

Key Concepts

- Business ethics management
- Code of ethics
- Stakeholder management
- Social accounting
- Environmental management
- Environmental management systems
- Ethical leadership

INTRODUCTION

It is increasingly being recognized by managers, policy makers, and researchers that business ethics in the global economy is simply too important to be left merely to chance. Global corporations such as BP, Siemens, Walmart, Volkswagen, and others have realized to their cost the threat that perceived ethical violations can pose to their zealously guarded reputations. Small and medium-sized enterprises (SMEs), and more socially oriented organizations, are also not immune to the challenges faced by rising and globalized stakeholder expectations (Jansson et al. 2017). As we will see in Chapter 6, stricter regulation has had a significant impact in shaping how organizations report on CSR issues. Legislation in countries such as Denmark, France, Japan, Malaysia, and the UK has required large firms to report on certain social and environmental factors relating to their business, while India has instituted a requirement for all large firms to contribute 2% of their profits to CSR initiatives.

As a result, there have been numerous attempts, both theoretically and practically, to develop a more systematic and comprehensive approach to *managing* business ethics. Indeed, this has given rise to a multi-million-dollar international business ethics 'industry' of ethics managers, consultants, auditors, and other experts available to advise and implement ethics management policies and programmes in corporations across the globe. In general, over the past two decades we have seen a sharp rise in management positions in 'compliance', 'risk', or more generally 'corporate responsibility' and 'sustainability', which often overlap substantially with business ethics management—a topic we pick up at the end of this chapter when talking about organizing business ethics management.

How then can companies actually manage business ethics on a day-to-day basis across the various national and cultural contexts that they may be operating in? Is it possible to control the ethical behaviour of employees so that they make the right ethical decision every time? And what kinds of social and environmental management programmes are necessary to produce the level of information and impacts that various stakeholders demand? These are the kinds of questions that we will deal with in this chapter, reflecting on recent theory and practice that is at the very forefront of current business ethics debates.

WHAT IS BUSINESS ETHICS MANAGEMENT?

Before we proceed, it is necessary to first establish what exactly we mean by managing business ethics. Obviously, managing any area of business, whether it is production, marketing, accounting, human resources, or any other function, constitutes a whole range of activities covering formal and informal means of planning, implementation, and control. For our purposes, though, the most relevant aspects of business ethics management are those that are clearly visible and directed at resolving ethical problems and issues.

Business ethics management The direct attempt to formally or informally manage ethical issues or problems through specific policies, practices, and programmes.

Business ethics management, as we shall now show, covers a whole range of different elements, each of which may be applied individually, or in combination, to address ethical issues in business.

COMPONENTS OF BUSINESS ETHICS MANAGEMENT

There are numerous management activities that could be regarded as aspects of business ethics management, such as codes of ethics, social auditing, and CSR reporting. Without intending to be exhaustive, **Figure 5.1** sets out the main components currently in place today, at least within large multinational corporations. These are all explained briefly below. The most important of these components are described in full when we tackle the setting of ethical standards, looking in depth at managing the ethical behaviour of employees, managing stakeholder relations, and managing and assessing ethical performance.

Mission or values statements

These are general statements of corporate aims, beliefs, and values. Such statements have increasingly included social, ethical, and environmental goals of one kind or another (King, Case, and Premo 2010). For example, American multinational technology company Google has the mission to 'organize the world's information and make it universally accessible and useful', while Indian multinational conglomerate Tata states that its mission is 'to be the most reliable global network for customers and suppliers, that delivers value through products and

Figure 5.1 Business ethics management

services. To be a responsible value creator for all our stakeholders.' Virtually all large and many small and medium-sized organizations now have a mission statement of some kind, and it is clear they are important in terms of setting out a broad vision for where the company is going. However, in terms of business ethics, they often fail to set out a very specific social purpose, are divorced from strategy, and struggle to impact upon employee behaviour (Bart 1997). Moreover, even a well-crafted, appropriate, and inspirational social mission is unlikely to be effective unless it is backed up by substantive ethics management throughout the organization.

Codes of ethics

Sometimes called codes of conduct or simply ethics policies, codes of ethics are voluntary statements by organizations or other bodies that set out specific rules or guidelines that the organization or its employees should follow. These provide explicit outlines of what type of conduct is desired and expected of employees from an ethical point of view within a certain organization, profession, or industry. Given that most attention in business ethics theory and practice has focused on codes of ethics, we provide a fuller discussion of these tools below. However, it is first important to outline the four main types of ethical codes.

Code of ethics A voluntary statement that commits an organization, industry, or profession to specific beliefs, values, and actions and/or that sets out appropriate ethical behaviour for employees.

- **Organizational or corporate codes of ethics.** These are specific to a single organization and seek to identify and encourage ethical behaviour at the level of the individual organization. 'IWAY' is Swedish furniture group IKEA's code of conduct which places requirements on key stakeholders in relation to working conditions, the prevention of child labour, the environment, and more.[1]
- **Professional codes of ethics.** Professional groups also often have their own guidelines for appropriate conduct for their members. While most traditional professions such as medicine, law, and accountancy have long-standing codes of conduct, it is now also increasingly common for other professions to have their own codes, such as the American Marketing Association 'Statement of Ethics.'[2]
- **Industry codes of ethics.** As well as specific professions, some industries have their own codes of ethics. In many countries, the financial services industry has a code of conduct for companies and/or employees operating in the industry, such as the UK's Financial Conduct Authority (FCA) Code of Conduct.[3] Similarly, at the international level, the electronics industry has developed the Responsible Business Alliance (RBA) code of conduct, which sets standards on social, environmental, and ethical issues in the industry supply chain.[4]
- **Programme or group codes of ethics.** Finally, certain programmes, coalitions, or other sub-groupings of organizations also establish codes of ethics for those participating in specific programmes. This may be in the form of, for instance, the CAUX Roundtable Principles for Business,[5] established through a collaboration between global business leaders. Sometimes, conforming to a particular programme code is a prerequisite for using a particular label or mark of accreditation. Companies wishing to use the Fairtrade Mark must meet the social, economic, and environmental standards set by the international certification body, Fairtrade International.

Reporting/advice channels

Gathering information on ethical matters is clearly an important input into effective management. Providing employees with appropriate channels for reporting or receiving advice regarding ethical dilemmas can also be a vital means of identifying potential problems and resolving them before they escalate and/or become public. Many organizations, such as Danish multinational pharmaceutical company Novo Nordisk, have therefore introduced ethics hotlines, or other forms of reporting channels, specifically for employees to notify management of ethics abuses or problems and to seek help and guidance on solutions. Recent reports suggest that firms receive an average of 1.4 reports per 100 employees.[6] The trend towards the use of anonymous hotlines and online alternatives continues to gather pace, particularly in the context of sexual harassment and misconduct reporting. While capturing this information is essential, some question the efficacy of such reporting channels and the motivation for instilling them. Countries, such as Germany and France, even prohibit certain features of hotlines due to privacy restrictions.

Risk analysis and management

Managing and reducing reputational and financial risk has become one of the key components of business ethics management in recent years. Managing business ethics by identifying areas of risk, assessing the likelihood and scale of risks, and putting in place measures to mitigate or prevent such risks from harming the business has led to more sophisticated ways of managing business ethics. As Alejo José Sison (2000) suggests, the language of risk assessment has now enabled business ethics to 'show its bite' by spelling out the risks that firms run by ignoring ethics, and measuring these risks in monetary terms, such as the fines, damages, and sanctions that courts can impose. This has been particularly prominent in the US, with the Foreign Corrupt Practices Act and the Sarbanes–Oxley Act providing a legal impetus for greater attention to unethical business practices, such as bribery and accounting malpractice. In Europe and Asia too, such legislation is having a similar effect on the large number of non-US multinationals that are jointly listed in the US or that do business in the country.

Consequently, risk management techniques have evolved from a focus on easily identifiable and quantifiable legal and ethical risks, such as those relating to pollution or product liability, to those that increasingly emerge from organizational 'blind spots.' The world's largest cyberattack was reported in 2016, when Yahoo disclosed that nearly 1 billion consumer accounts had been compromised through a data breach it had not pre-empted. This news not only significantly impacted consumer trust, but also wiped $350 million off the company's valuation. In the face of more complex and intangible risks to business operations, it has been argued that risk management is expanding from a focus on protecting the balance sheet to promoting ethical leadership and values-based decision-making.[7] The Equator Principles, launched in 2003, now, for instance, provide a useful risk management framework for financial institutions in assessing and managing environmental and social risk in project finance.

Ethics governance processes

Ethics governance processes comprise specific managers, officers, and committees. In some organizations, specific individuals or groups are appointed to co-ordinate and/or take responsibility for managing ethics in their organization. Designated ethics officers (under various titles) are now fairly prevalent, especially in the US, where an Ethics and Compliance Officer

Association (ECOA), set up in 1992, has grown to around 1,300 members, including representatives from more than half of the Fortune 100. This growth is at least partly due to the increasing emphasis on compliance in the US with the tightening of regulations that followed the Sarbanes–Oxley legislation. As one commentator put it (Reeves 2005): 'The structure of sentencing policy has driven the appointment of ethics officers and fuelled a boom in business ethics training. If an executive ends up in the dock for corporate wrongdoing, he or she will get a shorter time in the nick if they can demonstrate that they have hired an ethics officer and rolled out courses across the firm.'

In Europe, Asia, and elsewhere, such positions are less common, but the ECOA now boasts members across five continents and, in countries such as the UK and France, organizations such as the Institute of Business Ethics (IBE) and the Cercle Européen des Déontologues (European Circle of Ethics Officers) provide membership services to ethics managers. A growing number of large corporations also now have an ethics committee, or a CSR committee, which oversees many aspects of the management of business ethics. In India, for example, a board-level CSR committee is a requirement of the 2013 Companies Act for all companies larger than a certain size.

Ethics consultants

Business ethics consultants have also become a small but firmly established fixture in the marketplace, and a wide range of companies have used external consultants rather than internal executives to manage certain areas of business ethics. The initial growth in this sector was driven by environmental consultants, who tended to offer specialist technical advice; but as the social and ethical agenda facing companies has developed, the consultancy market has expanded to offer a broader portfolio of services including research, project management, strategic advice, social and environmental auditing and reporting, verification, stakeholder dialogue, etc. While the market continues to be dominated by large professional service firms, such as EY, KPMG, and Deloitte, leading niche specialists, such as Bureau Veritas, DNV-GL, Good Corporation, and SustainAbility, are growing in scale and influence. **Practitioner Spotlight 5** takes a deeper look into the kinds of day-to-day skills needed to work in consultancy and drive ethics management, focusing particularly on the engineering sector.

Ethics education and training

With greater attention being placed on business ethics, education and training in the subject has also been on the rise. Provision might be offered either in-house or externally through ethics consultants, universities and colleges, or corporate training specialists. Again, formal ethics training has tended to be more common in the US than elsewhere, with a 2018 survey revealing that ethics and compliance training had demonstrable impact on favourable, ethical outcomes for businesses and provided useful guidance and senior leader support.[8] In Asia, organizations such as CSR Asia, profiled in **Practitioner Spotlight** 2, also provide a wide range of training courses to meet growing demand in the region.

Many academic writers have stressed the need for more ethics education among business people, not only in terms of providing them with the tools to solve ethical dilemmas, but also to provide them with the ability to recognize and talk about ethical problems more accurately and easily (Thorne LeClair and Ferrell 2000). Diane Kirrane (1990) summarizes the goals for ethics training as: (a) identifying situations where ethical decision-making is involved; (b) understanding the culture and values of the organization; and (c) evaluating the impact of the ethical decision on the organization. Some companies have developed innovative approaches to achieving this (Reuters 2009), an example being Novartis, the Swiss healthcare multinational, where employees learn about the company's code of ethics in 'Novartis Land'; an online training program that enables employees to interactively explore ethics policies and answer questions in an online dialogue-role-play setting.

Universities are also offering more flexible methods for teaching business ethics to practitioners and other interested parties through 'Massive Open Online Courses' (MOOCs). Typically free to participate in and accessible to all with an internet connection, such courses are run by universities all over the world and enable practitioners to build and test valuable knowledge around their busy schedules. Such forays are also increasingly becoming available in more portable formats. Take the Markkula Center for Applied Ethics at Santa Clara University, for example, that has developed a free ethical decision-making application for use on smartphones and laptops, billed as a 'practical tool for thinking through tough choices'.[9]

Stakeholder consultation, dialogue, and partnership programmes

It is argued that business ethics and communication ethics are inextricably linked (Pearson 2017). There are various means of engaging an organization's stakeholders in ethics management, from surveying them to assess their views on specific issues to including them more fully in corporate decision-making. To make the navigation of diverse stakeholder views more manageable, many organizations band together to form industry-level collaborations and partnerships. For instance, in 2017, the International Petroleum Industry Environmental Conservation Association (IPIECA) developed a partnership with the United Nations Development Programme (UNDP) and the International Finance Corporation (IFC) to develop industry-level guidance on the implications of the SDGs for the oil and gas sector.

In the last decade, 'Web 2.0' technological developments have also significantly increased the speed, accessibility, and transparency of communication between organizations and stakeholders. The progressively interactive climate afforded by social media sites in particular is changing the face of stakeholder consultation and dialogue. Once premised upon providing information to stakeholders, or responding to their queries, business ethics communication is now evolving to actively *involve* stakeholders in the consumption and production of information on social, environmental, and ethical issues (Morsing and Schultz 2006). Stakeholder consultation, dialogue, and partnership are increasingly becoming accepted ways of managing business ethics in today's interconnected online world and this theme will be explained in greater detail below.

Auditing, accounting, and reporting

Finally, we come to a set of closely related activities that are concerned with measuring, evaluating, and communicating the organization's impacts and performance on a range of social, ethical, and environmental issues of interest to their stakeholders. Unlike most of the previous developments, these aspects of business ethics management have not been pioneered in the US, but rather in Europe, with companies such as BT, the Co-operative Bank, Norsk Hydro, Traidcraft, the Body Shop, and Shell being at the forefront of innovation in this area. However, there is rapid development in this field across the globe, with a 2017 KPMG survey revealing that corporate responsibility reporting is now seen as 'standard practice' for large and medium-sized companies around the world in, being utilized by over 75% of companies globally.[10] According to the survey,

5

PRACTITIONER SPOTLIGHT 5 Advising and implementing ethics management

Many businesses now rely on external consultants and auditors to provide advice on how to implement ethics management policies and programmes. To provide a deeper insight into the role of sustainability consultants, we spoke to **Kerry Griffiths, Technical Director Sustainability**, at multinational engineering firm **AECOM**, based in New Zealand.

Can you broadly describe your current job role? I work as a sustainability consultant for a large engineering/environmental services firm. Most of my work focuses on working with clients in regard to their sustainability agenda. My particular area of focus is sustainability and infrastructure (mainly civil), which means I work a lot with project teams, infrastructure owners, designers, and constructors to help them integrate sustainability into the development and operations of infrastructure. In addition to this focus, I also work with businesses on their sustainability strategies and programmes. Sometimes this involves a comprehensive review of their sustainability impacts and focus areas followed by action planning and implementation support. Other times this may focus on a specific area, e.g. climate change impacts and mitigation opportunities. Finally, I also have some involvement with AECOM's sustainability programme—in the past I was involved in sustainability reporting and target setting and programme implementation. These days I am more in an advisory/review role.

Can you tell us a bit about your career path to date? I became interested in the role of business in society and started investigating that area. As a result, I completed an MSc in Responsible Business at the University of Bath, UK in the mid-1990s. This was a ground-breaking degree programme at the time and it set me up well for a career in the sustainability space. The knowledge and network from the Bath degree supported my growth and credibility in consulting work. Indeed, the network of people who completed this degree are still connected. At the same time as completing the MSc, I worked with a team of people in New Zealand who set up an organization called Businesses for Social Responsibility; this later morphed into the Sustainable Business Network. At this time, I was working for myself, and then I joined a small management consultancy which had strong values in the ethical business space. Eventually I joined AECOM (actually URS which was acquired by AECOM) because there was a bigger team and technical specialists who could support the sustainability agenda. More recently I completed a PhD with a focus on sustainability and infrastructure; looking mainly at the infrastructure sustainability rating tools. This work contributes to the work I am doing now.

What practical skills do you draw on in your current role? Strategic thinking is very important. It is also essential to have a good knowledge of the broad sustainability agenda, including the Sustainable Development Goals (SDGs) and other frameworks and standards. I ensure that I have up-to-date knowledge of developments in the sustainability space internationally and locally. I also need specific technical skills related to carbon accounting and reporting, and sustainability and infrastructure (including associated rating tools). Finally, our work with organizations often involves workshops with various stakeholders and the development of reports or other communication outputs. Effective facilitation, communication, and writing skills are, therefore, very important.

What are some of the key benefits of your role? The key benefit is working with others to advance their sustainability knowledge, strategies, and actions. As a consultant I work across a number of industries and organizations and I very much enjoy this diversity. I can bring my knowledge and expertise to bear on outcomes that truly advance the sustainability agenda. And I get to contribute to an increase in the knowledge and capability of others.

If you could change one big world issue, what would it be? Simple. Equality for women.

SOURCES

https://www.aecom.com

https://www.bsr.org/en

https://sustainable.org.nz

Visit the online resources for more Practitioner Spotlight interviews.

5

Latin America is seeing the biggest surge in reporting, while Eastern Europe is lagging, despite a European Directive on Non-Financial Reporting coming into force in 2017 to enhance business transparency on social and environmental matters. The highest level of reporting is seen in sectors with high environmental and social impacts, such as oil and gas, and mining (where 81% and 80% of companies, respectively, issue a report), while retail is trailing with just 32%. This global diffusion is further evident in programmes such as SA 8000, the Sustainability Accounting Standards Board (SASB), Integrated Reporting (IR), and the Global Reporting Initiative (GRI) that—as we shall discuss in more detail later—seek to provide internationally comparative standards for auditing, accounting, and reporting. Although these forms of management are still in relatively early periods of experimentation and development, they can play a crucial role in enhancing corporate accountability in the era of corporate citizenship, as we suggested in Chapter 2.

It is also important to mention that the increasing prominence of sustainability indices and benchmarking programmes may drive the scope and content for reporting. Organizations such as the Carbon Disclosure Project (CDP), which supports companies to disclose their environmental impacts, and the Dow Jones Sustainability Index (DJSI), which evaluates overall sustainability performance, conduct annual surveys to measure the impact of corporate sustainability agendas, ranking the best- and worst-performing businesses. While the impact of such initiatives on the business bottom line is still debated (Hawn, Chatterji, and Mitchell 2018), such metrics are increasingly being utilized by institutional investors. In 2016, DJSI rankings became accessible to Bloomberg terminal subscribers, suggesting the increased appetite for sustainability accounting among the financial community.

EVOLUTION OF BUSINESS ETHICS MANAGEMENT

Before proceeding to discuss some of the most common components in more detail, we should stress that few, if any, businesses are likely to have *all* of these tools and techniques in place, and many may not have *any* of them. This will particularly be the case with small and medium-sized companies (SMEs), which tend not to introduce the more formal elements of ethics management and reporting (Spence 1999). However, in general, the take-up of different components does appear to be increasing. Since 2000, there also appears to have been a change in emphasis from a focus on *managing employee behaviour* (through codes, etc.), towards developing and implementing tools and techniques to *manage broader social responsibilities*. This shift has seen business ethics as a management practice evolve from a focus on the internal to the external aspects of a business.

In the next three sections, we shall take a look at the three main areas where the management of business ethics might be particularly relevant:

- **Setting standards of ethical behaviour**. Here we shall mainly examine the role of ethical codes and their implementation.
- **Managing stakeholder relations**. Here we shall look at how to assess stakeholders, different ways of managing and communicating with them, and the benefits and problems of doing so.
- **Assessing ethical performance**. Here we shall consider the role of social accounting in contributing to the management and assessment of business ethics.

5

SETTING STANDARDS OF ETHICAL BEHAVIOUR: DESIGNING AND IMPLEMENTING CODES OF ETHICS

Since the mid-1980s, many organizations have made efforts to set out specific standards of appropriate ethical conduct for their employees to follow. As we shall see later in the chapter, much of this standard-setting might well be done informally or even implicitly, such as through the example set by leaders or embedded organizational culture. Focusing on the more formal approach of standard-setting, it is acknowledged that there has been a substantial rise in the usage of codes of ethics during the past decades, particularly in large and medium-sized companies. Almost all large US companies have a code, while something like 93% of FTSE 350 listed companies have a reported ethics programme, of which a code of ethics is the most prominent feature.[11] Evidence of their prevalence among SMEs is fairly scant, but the general indication is of a much lower figure (Spence and Lozano 2000), particularly in developing country contexts. In addition to such research, which has examined the prevalence of codes of ethics, the research to date has primarily focused on three main areas that we will now explore in detail:

- Content of codes of ethics.
- Effectiveness of codes of ethics.
- Global codes of ethics.

CONTENT OF CODES OF ETHICS

In terms of content, codes of ethics vary from long, legalistic documents to short, visually engaging summaries that provide practical scenarios and best practice principles. They typically address a variety of issues, many of which appear to reflect industry factors and the prevailing concerns of the general public, providing important information to external constituents and a reference point for employees. Perhaps unsurprisingly, codes from the apparel industry tend to focus more than others on labour issues, while codes from the extractive industry tend to feature environmental issues more than others. There are, however, some common provisions found in codes of ethics across sectors. The Ethics and Compliance Initiative (ECI) groups these into the following eight areas:

- Compliance, Integrity and Anticorruption, e.g. avoiding bribes and political contributions;
- Conflicts of Interest, e.g. policing gifts and gratuities and disclosure of financial interests;
- Employee, Client, and Vendor Information, e.g. maintaining records and privacy;
- Employment Practices, e.g. preventing workplace harassment, equal opportunity, and diversity;
- Environmental Issues, e.g. committing to sustainability and employee health and safety;
- Ethics and Compliance Resources, e.g. providing ethics advice helplines;
- Internet, social networking, and social media, e.g. blocking prohibited sites;
- Relationships with third parties, e.g. developing effective procurement and negotiating contracts.

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As we see from the above, codes are increasingly evolving to encompass online as well as offline activity. Data privacy, use of the internet at work, and social media are themes that have been emerging in codes of ethics over recent years, given high-profile incidents of organizations being caught out by employee online activity. In 2013, the UK music retailer HMV saw its social media manager 'live' tweeting to the outside world sensitive information about staff redundancies, placing the media spotlight on a troubled organization. In 2015, American holding company IAC (InterActiveCorp) fired its senior director of corporate communications who tweeted, 'Going to Africa. Hope I don't get AIDS. Just kidding. I'm white!'

Incidents such as these have clear repercussions for organizational reputation and ethical practice more broadly and have given rise to an increasing number of organizational social media policies. A 2016 Pew Research Centre study revealed that half of all full-time and part-time workers (51%) now say that their workplace has rules about using social media while at work, while 32% report that their employer has policies about how employees may present themselves on the internet in general.[12] In 2013, United Parcel Service (UPS) issued a social media policy that stated, 'guidelines apply to your personal and professional social media activities, whether during work-hours or at home. Regardless of your location, you never stop being a UPS employee.'

Such examples, which have been investigated by Banghart, Etter, and Stohl (2018), raise important questions about the boundaries between what constitutes public and private—or business and leisure—pursuits in a digital age. While codes of conduct that encompass social media policies might be a step in the right direction in terms of raising the bar for integrity and decency, such attempts perhaps suggest that corporate control is increasingly seeping into our personal lives. It is not hard to see why some are troubled by these developments. In 2018, the Australian Broadcasting Company (ORF) issued a social media policy that advised its journalists to refrain from providing political opinions, even in a private online sphere. This was seen by many to be a dangerous corporate attack on freedom of expression.

In order to deal with the broad range of issues that codes of ethics now have to cover, it can be argued that most codes attempt to achieve one or both of the following aims:

- Definition of principles or standards that the organization, profession, or industry believes in or wants to uphold. These are termed 'aspirational codes'.
- Setting out of practical guidelines or rules for employee behaviour, either generally or in specific situations (such as accepting gifts, how customers are treated, etc.). These are termed 'rules-based codes'.

THINK THEORY

Think about the distinction between aspirational and rule-based guidelines. Which do you feel to be most helpful in guiding employee practice in an increasingly digital world? Can you identify further examples of each of these types of code being used to regulate social media practice? Evaluate these in terms of feasibility of implementation, especially across national contexts.

Visit the online resources for a suggested response.

5

Figure 5.2 shows the code of ethics developed by General Electric (GE) entitled 'The Spirit & The Letter', which sits at the heart of GE's Integrity & Compliance programme and governs its business operations across the globe.[13] As you can see, this is a very simple code that mainly focuses on 'aspirational' *general* principles, e.g. 'Be honest, fair, and trustworthy.' More *specific* 'rule-based' guidelines are also provided across each of these areas. For instance, the code specifies the policy that, 'We must be truthful and accurate when dealing with governments' and this boils down to the rule that, 'Government business is different—do not pursue government business without first engaging your legal counsel.' Additionally, GE provides three handy questions that employees and representatives should ask when they are unsure about their activity:

- How would this decision look to others within GE and externally?
- Am I willing to be held accountable for this decision?
- Is this consistent with GE's Code of Conduct?

Figure 5.2 General Electric (GE) code of conduct, 'The Spirit & The Letter'

01. Be honest, fair and trustworthy.

02. Obey applicable laws and regulations.

03. Be the voice of Integrity and promptly report any concern you have about compliance with law, GE policy or this code.

04. Simple compliance is more effective compliance. Effective compliance is a competitive advantage. Work to run the company in as competitive a way as possible – with speed, accountability and compliance.

According to Hoffman, Driscoll, and Painter-Morland (2001: 44), to be effective, codes should address *both* aspirational (general) and rules-based (specific) tasks: 'rules of conduct without a general values statement lack a framework of meaning and purpose; credos without rules of conduct lack specific content'. The question of exactly how codes can actually be crafted to achieve these ends is, however, a crucial one. Cassell, Johnson, and Smith (1997), for example, argue that while clarity is obviously important, the desire to provide clear prescriptions for employees in specific situations can clash with needs for flexibility and contextual nuance. As we shall discuss in more detail shortly, this is particularly pertinent in the context of multinationals, where employees are likely to be exposed to new dilemmas and differing cultural expectations (Donaldson 1996). Similarly, given that many ethical dilemmas are characterized by a clash of values or by conflicting stakeholder demands, ethical codes might be expected to identify which values or groups should take precedence—yet the need to avoid offending particular stakeholder groups often results in rather generalized statements of obligation (Hosmer 1987). With empirical evidence suggesting that simply having a formal written code is not sufficient to ensure ethical behaviour (Kaptein and Schwartz 2008), it is perhaps unsurprising that many commentators conclude that codes of ethics are rhetorical PR devices used to pacify critics while maintaining business as usual.

EFFECTIVENESS OF CODES OF ETHICS

In many respects then, in terms of effectiveness it is perhaps less important what a code says than how it is developed, implemented, and followed up. A code imposed on employees, without clear communication about what it is trying to achieve and why, might simply cause resentment. Similarly, a code that is written, launched, and then promptly forgotten is unlikely to promote enhanced ethical decision-making. Perhaps worst of all, a code that is introduced and then seen to be breached with impunity by senior managers or other members of staff is probably never going to achieve anything apart from causing employee cynicism.

So how is it possible to get the implementation right? While there are few, if any, unequivocal answers to this question, a number of suggestions have been presented. Mark Schwartz (2004), for example, interviewed employees, managers, and ethics officers about what they felt determined the effectiveness of codes. His study suggests the following factors as the most important:

- **How the code is written**—such as its readability, the use of appropriate examples, the tone used, and the relevance and realism of the code with respect to the workplace.
- **How the code is supported**—such as, does it have top management support, is it backed up with training, is it regularly reinforced?
- **How the code is enforced**—for instance, is there an anonymous reporting channel, are violations communicated to employees, and are there incentives and punishments attached to compliance and non-compliance?

The issue of enforcement is clearly crucial. Another large-scale survey of employees, for example, revealed that 'follow-through' (such as detection of violations and follow-up on notification) was much more important in influencing employee behaviour than simply putting a code into place (Treviño et al. 1999). This can present particular challenges to companies when senior management is found to have violated the code, as they are the ones supposed to be setting the tone from the top. However, there are a number of high-profile examples of companies taking their codes of ethics sufficiently seriously to apply them even to their senior executives. The chief executives of Boeing (2005), Hewlett-Packard (2010), Lockheed Martin (2012), and Intel (2018) all were forced to resign because of breaches of the company's code of conduct. All of these cases involved sexual affairs with employees or contractors—a behaviour clearly defined as inappropriate in the organization's respective codes. Apart from the Hewlett-Packard case, where the affair also included fake expense claims as part of a cover-up, those CEOs' unethical actions 'did not affect the company's operational or financial performance', as Lockheed Martin put it in a press release.

Follow-through of this nature sends an unambiguous message to employees. But how are organizations to ensure that such follow-through is established throughout its span of operations? For this to happen, it is imperative that violations are identified and procedures are put in place to deal with them. Sethi (2002) therefore suggests that codes need to be translated into a standardized and quantified audit instrument that lends itself to clear, consistent, and transparent assessment, and that code compliance must be linked to managers' performance evaluation. Perhaps such measures may prevent internal ethical dilemmas from becoming full-blown issues of public interest, as we have seen with a number of high-profile Facebook data breaches and subsequent fines in 2018.[14] This is an issue that we will explore in more depth in **Ethics in Action 5.1**, where we consider the efficacy of codes of conduct in relation to some of society's biggest challenges in a digital age: censorship and surveillance.

Although codes are widely regarded among ethics practitioners as an important component of effective business ethics management, there has been a stream of literature more critical of such codes (Clegg, Kornberger, and Rhodes 2007; Stansbury and Barry 2007; Painter-Morland 2010; Mercier and Deslandes 2017). Not only have codes been identified as questionable control mechanisms that potentially seek to exert influence over employee beliefs, values, and behaviours (Schwartz 2000; Stansbury and Barry 2007), but as we saw in Chapter 3, there is growing interest from postmodernists, feminists, and others in the possibility for codified ethical rules and principles to 'suppress' individual moral instincts, emotions, and empathy in order to ensure bureaucratic conformity and consistency. In **Ethical Dilemma 5**, you can work through some of these issues in the context of a specific example and consider the benefit of cultivating more ethically self-reflexive behaviours in organizations.

GLOBAL CODES OF ETHICS

Finally, the issue of global codes of ethics has also received increasing attention from business, researchers, and others in recent years (Wieland 2014). Given the rise of multinational business, many organizations have found that codes of ethics developed for use in their home country may need to be revisited for their international operations. Are guidelines for domestic employees still relevant and applicable in overseas contexts? Can organizations devise one set of principles for all countries in which they operate?

Consider the issue of gift giving in business. This is an issue where cultural context has a distinct bearing on what might be regarded as acceptable ethical behaviour. While many organizations have specific guidelines precluding the offer or acceptance of gifts and hospitality as part of their business operations, in some countries, such as Japan, not only is the offering of gifts considered to be a perfectly acceptable business activity, but the refusal to accept such offerings can be regarded as offensive. Similarly, questions of equal opportunity are somewhat more equivocal in a multinational context. European or US organizations with codes of practice relating to equal opportunities may find that these run counter to cultural norms, and even legal statutes, overseas. For example, in many countries, such as India, there is a cultural expectation that people should show preference for their close friends and family over strangers, even in business contexts such as recruitment. In many Islamic countries, the equal treatment of men and women is viewed very differently from the way it is viewed in the West, with countries such as Saudi Arabia still having major restrictions on women even entering the workforce (Murphy 2007).

According to Thomas Donaldson (1996), one of the leading writers on international business ethics, the key question for those working overseas is: when is different just different and when is different wrong? As such, the question of how multinationals should address cultural differences in drafting their ethical codes returns us to the discussion of relativist versus absolutist positions on ethics, which we introduced in Chapter 3. A relativist would suggest that different codes should be developed for different contexts, while an absolutist would contend that one code can and should fit all. Donaldson's (1996) solution is to propose a middle ground between the two extremes, whereby the organization should be guided by three principles:

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- Respect for core human values, which determine an absolute moral threshold.
- Respect for local traditions.
- The belief that context matters when deciding what is right and wrong.

What this means is that global codes should define minimum ethical standards according to core human values shared across countries, religions, and cultures, such as the need to respect human dignity and basic human rights. Beyond this, though, codes should also respect cultural or contextual difference in setting out appropriate behaviour in areas such as bribery or gift giving.

The search for core values or universal ethical principles as a basis for global business codes of ethics has given rise to a number of important initiatives.[15] For instance, in 2000, the United Nations launched the UN Global Compact, a set of ten 'universally accepted' principles concerned with human rights, labour, the environment, and anti-corruption. By 2018, more than 12,000 businesses in 160 countries around the world had signed up to the Compact (see Ethics in Action 11.2).

It is, however, important to realize that the drive for codes of ethics, whether national or international, industry-wide or company-specific, is never going to 'solve' the management of business ethics. As we saw in Chapter 4, there is a vast array of influences on individual decision-makers within the organization, of which a written code is but one aspect. A code can rarely do more than set out the *minimum expectations* placed on organizations and their members and cannot be expected to be a substitute for organizational contexts supportive of ethical reflection, debate, and decision-making, or decision-makers with strong personal integrity. Moreover, while the introduction of codes of ethics primarily represents an attempt to manage employee conduct, organizations have increasingly found that the management of business ethics also requires them to manage relationships with a wide range of stakeholders, as we shall now discuss.

Ethics in Action 5.1 Managing ethics in a digital age: where next for the tech industry?

'We need a code of ethics for our industry, to guide our use of machine learning, and its acceptable use on human beings . . . Young people coming into our industry should have a shared culture of what is and is not an acceptable use of computational tools. In particular, they should be taught that power can't be divorced from accountability.'

—Pinboard creator Maciej Ceglowski, April 2017.

This rally cry from the creator of a social bookmarking website captures the essence of much of the public sentiment that is surrounding information and communications technology (ICT) firms in today's digital world. The world's largest social networking site, Facebook, is now valued at around $500 billion. If Facebook were a country, it would be substantially bigger than China, based on monthly active social media usage figures, which now top the 1 billion mark. And it is widely estimated that each of us spend somewhere in the region of 20–40 minutes using Facebook each day. With Facebook now owning the likes of messaging service WhatsApp and photo and video sharing site Instagram, this figure looks increasingly conservative.

With this power comes responsibility. In 2018 we saw a whole host of Facebook misdemeanours cast into the spotlight, revealing the little-known unethical underbelly of the tech industry. Most vivid of these scandals was the role of Facebook in election meddling and the disclosure that the data of nearly 87 million users had been compromised when users of an application inadvertently gave consent to their—and their friends'—data to be passed to an undisclosed third party and used to develop election-shaping micro-targeted advertisements. The Facebook and Cambridge Analytica scandal heightened public scepticism around the role of tech corporations in society, particularly their power to shape democratic processes. Yet, how can such a situation arise in an organization that has a stringent code of conduct that governs 'Protection of User Data and Personnel Data'?

Facebook, and CEO Mark Zuckerberg in particular, may have become the poster child of the unethical turn in the tech industry, but Facebook is not alone in its breaches of formal codes of conduct. In 2014, it was revealed that millions of Yahoo users had had images from their webcams intercepted by the UK surveillance agency, GCHQ. This provoked a storm of controversy, particularly when Yahoo admitted, 'We were not aware of, nor would we condone, this reported activity'. Then, in 2017, the discovery of the 'Cloudbleed' bug saw passwords, private messages, and other sensitive data from nearly 2 million accounts leaked into the public domain. This major security breach prompted service companies including Uber, FitBit, and OKCupid, whose users had been impacted, to engage in prompt investigation and issue guidance in an attempt to reassure users that their private data was still private. Yet this incidence of data leakage was just another privacy breach in a catalogue of data leakage incidences in recent years.

This all makes for worrying reading, but what can be done? The response from some in the industry is to build more robust ethical compliance programmes that enable better protection of user data and a sharing of best practice. It has been reported that Silicon Valley is currently drafting an industry-wide code of ethics that tackles important socio-political questions for the tech industry, including: How can user privacy and data be protected from government intrusion? How can Silicon Valley prevent its technology from being used against citizens or in support of authoritarian regimes? Such is the desire that an accepted code of ethics may one day govern the technology profession in the same way the Hippocratic Oath guides doctors and medical professionals.

Irina Raicu, Director of the Internet Ethics programme at the Markkula Center for Applied Ethics at Santa Clara University, takes this one step further, arguing that the tech industry needs to develop not just a code of ethics but also more consistent and pervasive ethics training for technologists. She argues, 'codes of ethics are useful, but often vague—and have to be interpreted and applied to particular sets of facts and decisions that technologists face'. Instead, she believes that the industry 'moral muscle' should be stretched through 'ongoing ethics training . . . in colleges and universities and coding boot-camps, but also in workplaces large and small'.

The key challenge of developing such codes of ethics and training programmes is in determining exactly how tech firms operationalize such codes and where the boundary between self-regulation and more stringent government backed legislation may lie. It is important to recognize that ethical issues, such as user privacy, surveillance, and censorship, are difficult areas for ICT companies to navigate, particularly across geographies. While countries such as China offer huge potential for developing new markets, and the US is home to the world's largest ICT firms, dealing with host governments can raise a range of problems that firms are ill prepared to deal with. If they refuse to accept the demands of governments they risk being fined or prevented from operating in the country. If they do accept them, they risk being complicit in potential human rights abuses. Furthermore, initiatives such as the Global Network Initiative (GNI), launched back in 2008 to 'respect freedom of expression and privacy rights when faced with government pressure to hand over user data, remove content, or restrict communications', offer some hope by way of industry coalition. Yet, such initiatives continue to grapple with a shifting legislative landscape. In 2017, the Federal Communications Commission (FCC) in the United States voted to dismantle rules that govern 'net neutrality'. Since a 2015 landmark ruling, it had been widely accepted that the internet should be free and open, providing equal access to all. The 2017 ruling, argued to be in the interest of businesses and consumers in stimulating innovation, dealt a major blow to those that have fought to protect democracy and free speech in an increasingly digital world. It also impacts on the way in which ethical issues are understood and managed within the tech industry.

This leads many to argue that tech firms need to be better regulated. As questions are raised about not just the *ethicality*, but also the *legality* of Facebook's 'unprecedented harvesting', record fines have been levied against the company for breaching the UK Data Protection Act and failing to protect users' information. Yet, as Laura Norén, a researcher at the Center for Data Science at New York University, argues, 'We need to at least teach people that there's a dark side to the idea that you should move fast and break things.' Perhaps, then, there is a role for instilling a more ethically reflexive culture within tech; championing 'softer' forms of self-regulation through codes of conduct and ethics training. Industry experts, regulators, and the general public continue to ponder how best to hold tech firms to account. This begs the question: what is the key to managing ethics in a digital age: prevention, cure, or response?

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QUESTION

Think about the notion of a code of ethics for the technology sector from the perspective of (a) rights, and (b) postmodern perspectives on ethics. What does each contribute and can they be reconciled?

Visit the online resources for web links to useful sources of further information.

ETHICAL DILEMMA 5 Getting explicit about the code of conduct

It is another rainy Monday morning and after a relaxing weekend you are sitting in your office preparing your agenda for the week. As the IT manager of a small financial services company, you have to prepare for your staff meeting at 10am, when all of your 15 IT team members will be present. You are planning to discuss the launch of your new promotion scheme, which is due to begin at the end of the week. Fortunately, Paul, who is the main market analyst for the company, was prepared to do some extra work at home over the weekend in order to make sure the forecasts were ready for the meeting.

While sipping your first cup of coffee someone knocks at the door. It is Faye, the hardware manager. She looks a bit embarrassed, and after a little stilted small talk, she tells you that 'a problem' has come up. She has just checked-in the laptop that Paul had taken out of the company's pool and used at home over the weekend in order to finish the forecasts you had asked for. When completing the routine check of the laptop, Faye tells you that she noticed links to various pornography sites in the history file of the laptop's internet browser. She tells you that they must have been accessed over the weekend when Paul had the laptop—the access dates refer to the last two days, and as is usual practice, the history file was emptied after the last person had borrowed it.

There is a strict company policy prohibiting employees from making personal use of company hardware, and access to sites containing 'material of an explicit nature' is tantamount to gross misconduct and may result in the immediate termination of the employee's contract. When your hardware manager leaves the office, you take a big breath and slowly finish your coffee.

After a few minutes thinking through the problem, you ask Paul to come into your office. You have a quick chat about his work and tell him that you are really pleased with the forecasts he put together over the weekend. Then, you bring up the problem with the laptop's history file. When you tell him what has surfaced, Paul is terribly embarrassed and assures you that he has absolutely no idea how this could have happened. After some thought, though, he tells you that he did allow a friend to use the laptop a couple of times over the weekend to check his email. Although Paul says that this is the only possible explanation for the mystery files, he does not volunteer any more information about the friend involved.

As it happens, this does not make you feel much better about the situation—the company's code of conduct also prohibits use of IT equipment by anyone other than employees. The company deals with a lot of private data that no one outside the company should have access to. You remind Paul of this and he tells you that he did not realize there was any such policy. You are left wondering when the last time was that anyone did any training around the ethics policy—certainly not recently. Scratching your head, you tell Paul that you will need 24 hours to think it over, and you get on with preparing for the team meeting.

While driving home that evening, you turn the issue over and over in your head. Yes, there is a corporate policy with regard to web access and personal use of company resources. And in principle you agree with this—after all, you were part of the committee that designed the policy in the first place. A company like yours has to be able to have clarity on such issues, and there have to be controls on what the company's equipment is used for—no doubt about that. You cannot help thinking that Paul has been pretty stupid in breaking the rules, whether he visited the sites himself or not.

On the other hand, you are also having a few problems with taking this further. Given the amount of embarrassment this has caused Paul already, is this likely to be just a one-off? Does the company not need Paul's experience and expertise, especially now with the big launch a few days off? Why cause problems over a few websites, especially when the company has not been very active in communicating its ethics policy? Would it be better to keep it quiet, give him a warning, and just get on with the launch? This looks set to be a tough call.

QUESTIONS

1. What are your main ethical problems in this case?
2. Set out the possible courses of action open to you.
3. Assess these alternatives according to a utilitarian perspective and a duty-based perspective. Which is the most convincing?
4. What would you do, and why?
5. Based on your answer, what are the apparent benefits and limitations of the code of conduct in this example?

Visit the online resources for a suggested response.

MANAGING STAKEHOLDER RELATIONS

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In Chapter 2 we introduced stakeholder theory as one of the key theories in the debate on the role and responsibilities of business in society. While our main concern there, and in Chapter 3, was to highlight the normative basis of stakeholder theory, it is important also to acknowledge the descriptive argument that managers do indeed appear to recognize distinct stakeholder groups, engage with them, and manage their companies according to their interests. While in some countries this is institutionalized in corporate governance, such as in the German two-tier supervisory board, even in more shareholder-focused countries many managers appear to have embraced at least some degree of recognition for stakeholder interests. One survey, for example, found that nearly half of all business executives say that managing sustainability is becoming a strategic pursuit that is balanced with overall business goals, mission, or values, and is primarily focused on maintaining stakeholder relationships.[16] This sentiment is shared, not only among businesses small and large, but also organizations of many kinds, including charities, schools, universities, and governments. Each of these organizations have a range of stakeholders whose interests might need to be considered in making decisions and this has given rise to a significant body of research dealing with the management of stakeholder relations. Let us look at some of the main themes addressed in this literature.

ASSESSING STAKEHOLDER IMPORTANCE: AN INSTRUMENTAL PERSPECTIVE

Much of the **stakeholder management** literature has focused on the strategic aspects of identifying which stakeholders actually matter to the organization and how they should be dealt with in order for the organization to effectively achieve its goals. Thus, Jones and Hill (2013: 380–1), in one of the leading Strategic Management textbooks, suggest that: 'A company cannot always satisfy the claims of all stakeholders. The goals of different groups may conflict, and in practice few organizations have the resources to manage all stakeholders . . . Often the company must make choices. To do so, it must identify the most important stakeholders and give highest priority to pursuing strategies that satisfy their needs.'

Stakeholder management The process by which organizations seek to understand the interests and expectations of their stakeholders and attempt to satisfy them in a way that aligns with the core interests of the company.

As Donaldson and Preston (1995) contend, it is important to distinguish this *instrumental* perspective on stakeholder theory from the *normative* perspective we developed in Chapters 2 and 3, and the *descriptive* perspective mentioned briefly above. Hill and Jones' (2013) argument is not so much that organizations have to rate the relative strength of the *ethical* claims of their various stakeholders, but rather that strategic objectives can best be realized by deciding which stakeholders are more likely to be able to *influence* the organization in some way. This is likely to be particularly important when organizations are in a position where they have to decide how to assign relative importance or priority to competing stakeholder claims.

Following a comprehensive review of the stakeholder management literature, Mitchell, Agle, and Wood (1997) suggest three key relationship attributes likely to determine the perceived importance or *salience* of stakeholders:

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- **Power.** The perceived ability of a stakeholder to influence organizational action.
- **Legitimacy.** Whether the organization perceives the stakeholder's actions as desirable, proper, or appropriate.
- **Urgency.** The degree to which stakeholder claims are perceived to call for immediate attention.

According to Mitchell, Agle, and Wood (1997), managers are likely to assign greater salience to those stakeholders thought to possess greater power, legitimacy, and urgency. Thus, stakeholders thought to be in possession of only one of these attributes will be regarded as the least important and might be regarded as 'latent' stakeholders. Those in possession of two of the three attributes are moderately important and hence can be thought of as 'expectant' stakeholders. Finally, those in possession of all three attributes will be seen as the most important constituencies and hence are termed 'definitive' stakeholders. For businesses, these definitive stakeholders often require active engagement in order to develop an effective and appropriate working relationship. Indeed, a variety of different relationships might be expected to emerge between businesses and their stakeholders, as we shall now see.

TYPES OF STAKEHOLDER RELATIONSHIP

As opposed to the sometimes antagonistic interactions portrayed in business-civil society interactions (see **Chapter 10**), it is increasingly recognized that there is a place for co-operation between stakeholders. Much of this development in broader stakeholder collaboration was pioneered in the field of environmental management, but it has since expanded to a wide range of social issues. Extended forms of stakeholder collaboration have emerged in other areas of business: various charities have joined with corporations in cause-related marketing campaigns; governments have worked with corporations to develop public-private partnerships for tackling social, educational, health, and transportation problems; and NGOs, trade unions, and government organizations have worked with businesses to develop initiatives aimed at improving working conditions and stamping out child labour and other human rights abuses in developing countries. While all of these developments will be discussed in greater detail in the second part of the book, what is immediately clear is that stakeholder relationships can take a variety of different forms, including everything from outright challenge and conflict, right up to joint ventures.

Confrontational forms of relationship are still very commonplace. For example, in 2014 Greenpeace launched a global campaign against the Danish toy company Lego to try and force it to end its relationship with the oil company Shell, in which Shell-branded Lego sets were sold at petrol stations. Lego initially refused to talk to Greenpeace, but after a hugely successful social media campaign it eventually backed down and announced it would not renew the relationship (Vaughan 2014). Over time, however, there has clearly been a significant shift towards more collaborative types of relationship, such as stakeholder dialogue and alliances (Selsky and Parker 2005; Seitanidi and Crane 2014).

Collaboration between stakeholders will certainly not always lead to beneficial ethical outcomes (consider, for example, the problems posed by two competitors collaborating over price setting). However, it is certainly an increasingly important tool for *managing* business ethics, primarily because closer forms of collaboration can bring to the surface evolving stakeholder demands and interests, and thereby provide companies with a greater opportunity to satisfy their stakeholders in some way. There has been greater acknowledgement of the business benefit of engaging in, rather than closing down, divisive and antagonistic stakeholder comments, particularly in the digital age where business-stakeholder interactions are more fluid (Schultz, Castelló, and Morsing 2013). It has been found that organizations are, for instance, more able to facilitate ongoing dialogues and generate new knowledge about societal interests through participating in social media forums (Glozer, Caruana, and Hibbert 2018). Moreover, by involving stakeholders more, it can be argued that a greater degree of democratic governance is introduced into corporate decision-making, thus enhancing corporate accountability. This is seen in the creation of online 'arenas for citizenship', which enable individual citizens to create, debate, and publicize corporate responsibility issues (Whelan, Moon, and Grant 2013). This also all boils down to a focus on developing effective communication strategies to not just manage stakeholders, but actively engage them in business ethics.

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COMMUNICATING WITH STAKEHOLDERS

Amid rising stakeholder expectations, corporate responsibility communication—a process of anticipating stakeholders' expectations to provide true and transparent information on economic, social, and environmental concerns (Podnar 2008)—has become a key element of stakeholder relationship management (Andriof and Waddock 2002). As Crane and Glozer's (2016) review of the corporate responsibility communication literature highlights, the majority of research in this area has focused on investigating how businesses communicate with external stakeholders (e.g. consumers, investors) to the detriment of internal stakeholders (e.g. employees). Stakeholder management is, however, just one motivation for corporate responsibility communication. Other key purposes include more normative and prescriptive approaches to image enhancement, identity and reputation building, gaining legitimacy, and changing behaviour.

Corporate responsibility communication has predominately taken the form of annual reports, websites, and corporate advertorials. We will explore these forms in more detail below when we consider social accounting. However, as corporate responsibility communications are increasingly playing out in online contexts through textual, visual, and video means, such developments transform the very nature of communication in facilitating more fluid interactions, but also challenge how we might study communication processes. Traditionally, we might have seen communication as the development of a corporate responsibility message by internal executives and transferred outside of the organization to passive stakeholder recipients. This one-way or 'monological' model of information-transfer is somewhat problematized in the more 'dialogical' (two-way) online context. Indeed, a range of interactive social media tools are now utilized to engage and manage stakeholders, such as weblogs (e.g. food retailer Delhaize's 'Feed Tomorrow' blog), microblogs (e.g. Campbell Soup's CSR Twitter feed), content communities (e.g. Samsung's 'Responsibility in Motion' YouTube channel), and social networking sites (e.g. software company SAP's CSR Facebook page). These platforms allow many voices to 'explore, construct, negotiate and modify what it means to be a socially responsible organization' (Christensen and Cheney 2011: 491).

This has prompted researchers to develop network-oriented models of communication that better account for the complex dynamics that surround communication in a digital age (Castelló, Morsing, and Schultz 2013). Such research does not necessarily suggest that there are now more stakeholder interests that businesses have to manage, but more that the expectations of these stakeholders are now transparent, persistent, and rapidly evolving. Yet, while social media provide much opportunity for greater interactivity, true dialogue is rarely a reality, as companies continue to consult stakeholders in an opportunistic manner, and rarely truly 'listen' (Manetti 2011). Research has suggested that organizations lack knowledge of how to effectively engage with stakeholders online and often apply the same communicative principles (i.e. information dissemination akin to broadcast media) to their digital tools, failing to utilize social media channels to their full potential (Capriotti 2011). At worst, digital communication is seen as a form of 'greenwashing' or 'window dressing' in which businesses present only their best achievements in an attempt to win over stakeholders (Banerjee 2008). It is clear that, despite the obvious benefits for the management of business ethics, digital communication in the context of corporate responsibility has yet to come into the mainstream.

PROBLEMS WITH STAKEHOLDER COMMUNICATION AND COLLABORATION

Potential problems with stakeholder communication and collaboration can arise at a number of different levels, but can be basically summarized as follows:

1. **Resource intensity.** Stakeholder communication and collaboration can be extremely time-consuming and expensive compared with traditional forms of corporate decision-making. Businesses may end up sacrificing shareholder-oriented, short-term financial goals through engaging in collaborative activities. Small businesses, in particular, may typically lack the time and financial resources necessary to develop partnerships, even though they often stand to benefit significantly from external expertise and support.
2. **Culture clash.** Companies and their stakeholders often exhibit very different values and goals, and this can lead to significant clashes in beliefs and ways of working, both between and within collaborating groups (Crane 1998). Overcoming such hurdles can be time-consuming at best, and fundamentally destructive to relationship building at worst.

3. **Temperamentality.** At the same time as they are collaborating on one issue or project, companies and their stakeholders may also often be in conflict over another issue or project. This development of 'multiple identities' can result in unpredictable behaviour on either or both sides, which partners may find hard to deal with (Elkington and Fennell 2000; Crane and Livesey 2003).
4. **Co-ordination.** Even with the best intentions of all parties, there is no guarantee with stakeholder collaboration that a mutually acceptable outcome can always be reached. Not only can consensus be elusive, but by collaborating with many different partners, organizations can face major co-ordination problems, increasing the risk of losing control of their strategic direction (Babiak and Thibault 2009).
5. **Co-optation.** Some critics have raised the question of whether, by involving themselves more closely with corporations, some stakeholder groups are effectively just being co-opted by corporations to embrace a more business-friendly agenda rather than maintaining true independence (Baur and Schmitz 2012; Dauvergne and LeBaron 2014).
6. **Accountability.** While stakeholder collaboration may partially redress problems with *corporate* accountability, there are also important concerns about the accountability of stakeholder organizations themselves (Bendell 2000). Moreover, when stakeholders such as business and government collaborate 'behind closed doors', accountability to the public may be compromised (Dahan et al. 2013). This is a theme that is further explored in Chapter 10.
7. **Resistance.** As a result of these and other concerns, organization members or external parties may try to resist the development of collaborative relationships, thus preventing the partners from fully achieving their goals (Selsky and Parker 2005).

ASSESSING ETHICAL PERFORMANCE

As with any other form of management, the effective management of business ethics relies to some extent on being able to assess and evaluate performance. However, what exactly is ethical performance? How can it possibly be measured? What criteria can we use to determine how good or bad an organization's ethical performance is? What level of ethical performance is expected by, or acceptable to, stakeholders? These are all vitally important questions to answer if we are to make any progress at all towards the effective management of business ethics.

At present, there is a whole patchwork of initiatives that we might include within the umbrella of assessing ethical performance. These include ethical auditing, environmental accounting, and sustainability reporting, as well as various other mixtures of terminology. With such a diversity of labels in use, there are obviously problems with distinguishing between different tools, techniques, and approaches. This is not helped by the fact that, at times, the distinctions between these terms are fairly illusory and there has been much inconsistency in the way that different terms have been applied and used. While Toyota currently produces a 'sustainability report', Microsoft produces a 'CSR report', and Nestlé produces a 'creating shared value report'. Sometimes even the same company alternates between different labels from one year to the next.

Given this confusion, we shall refer to social accounting as the generic term which encapsulates the broad range of tools and approaches that focus on assessing ethical performance. With its first usage dating back to the early 1970s, social accounting is also, according to Gray et al. (1997), the longest established and simplest term with which to work.

WHAT IS SOCIAL ACCOUNTING?

Social accounting is related to, but clearly distinct from, conventional financial accounting. The key factors that distinguish social accounting from financial accounting are:

- Its focus on issues other than (but not necessarily excluding) financial data.
- Its intended audience extending beyond (but not excluding) shareholders.
- Its status as a voluntary, rather than a legally mandated, practice (at least in most jurisdictions).

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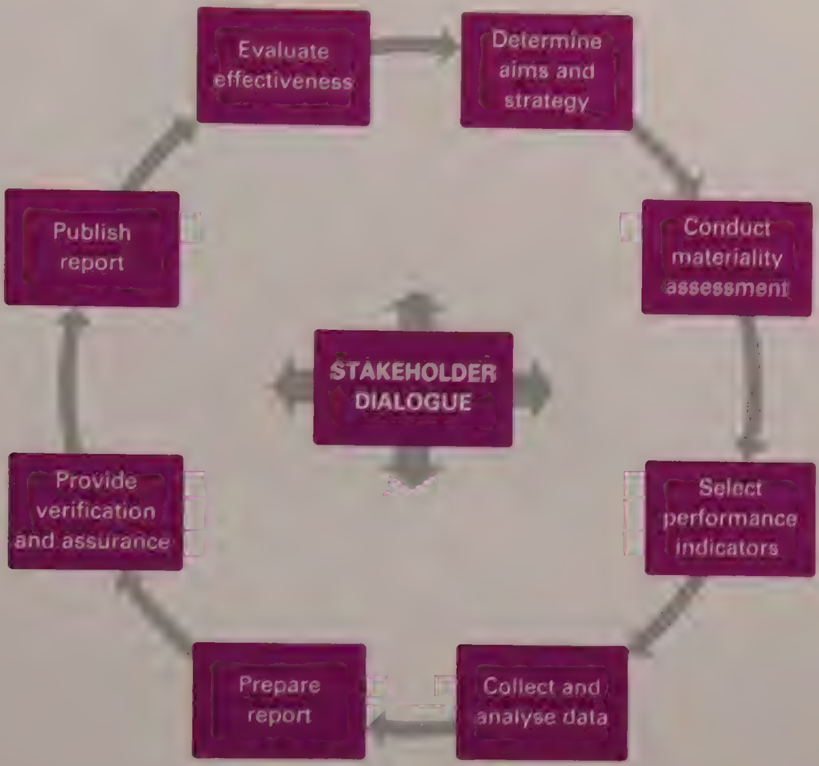
Social accounting The voluntary process concerned with assessing and communicating organizational activities and impacts on social, ethical, and environmental issues relevant to stakeholders.

So, what does the process of social accounting involve? Again, there are no clear answers to this question. Unlike financial accounting, there are as yet no strict formal standards laying down the rules that determine which issues should be included, how performance on particular issues should be assessed, or on how the organization should communicate its assessments to its audience (Wood 2010). In many ways, this is not surprising. After all, while it is reasonably straightforward to calculate how much an organization has paid in wages, or how many sales it might have made, this is much more difficult with social, ethical, and environmental issues. True, some of the social activities of an organization can be reasonably accurately determined, such as how much effluent might have been discharged into local rivers, or how much money has been given away to charitable causes. But even here, this does not tell us what the actual impact of these activities has been—how polluted this makes the water, and what the ultimate consequence is for fish and other life. Or what were the actual effects of company donations on their recipients and how much happiness did they bring?

Much of the data collected and reported in social accounting is, therefore, inevitably qualitative in nature, particularly as organizations move away from an emphasis on environmental impacts towards more integrated social or sustainability reports. For example, *The Shell Sustainability Report 2017* includes a mixture of quantitative data, such as greenhouse gas emissions, safety statistics, and gender diversity, as well as more qualitative data in the form of case studies of specific projects, quotes from various stakeholders, and outlines of key social issues and Shell's position on them.[17]

The problem, though, is not only one of how to assess social impacts, but also of which impacts to *account for* in the first place. Organizations have different aims, problems, and achievements; their stakeholders have different interests and concerns; and the reasons for even engaging in social accounting at all will vary between different organizations. Inevitably, the nature and process of social accounting adopted by any organization is, to some extent, a function of how the particular organization sees itself and its relationship with its stakeholders (Zadek, Pruzan, and Evans 1997). As such, the practice of social accounting has tended to be evolutionary in nature, with organizations not only developing and refining their

Figure 5.3 Stakeholder dialogue: social accounting process

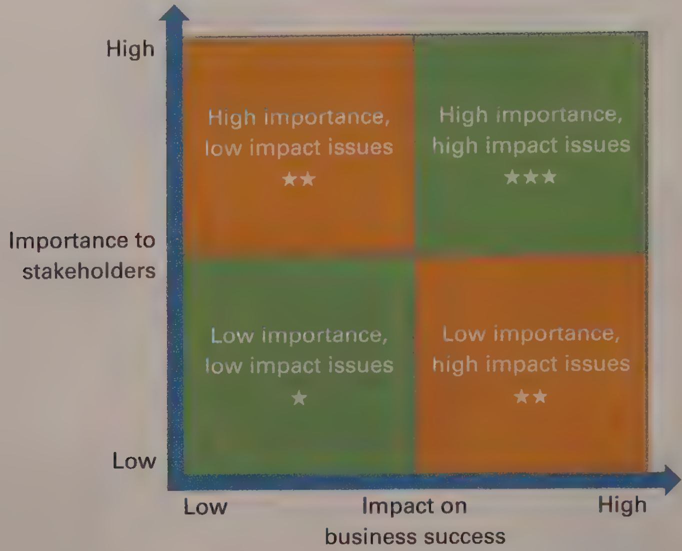


techniques over time, but also building in adaptation within the development cycle of a given report or audit.

Figure 5.3 provides a general framework for social accounting. This begins with *determining aims and strategy* for social accounting, where the organization will consider what the general purpose for measuring and reporting is, who the organization wants to communicate with, and what it hopes to achieve through the process. Next, the organization will likely *conduct a materiality assessment* in order to determine which particular issues are important (or 'material') to provide information on from the point of view of users. Such an analysis assesses the relative importance of various social, ethical, and environmental issues to stakeholders and evaluates their relative impact on business success. Figure 5.4 provides an example of a basic 'materiality matrix'. Plotting the range of possible issues on such a matrix gives a company a clearer sense of which issues a firm should be prioritizing, in line with stakeholder thinking (Freeman 1984). For example, the sports apparel company Puma identifies its most material issues in the top-right quadrant; these include 'responsible sourcing of raw materials', 'child and forced labour', 'water use and management', 'corruption', and 'living wage'.[18] Such an analysis is becoming a common practice in social reporting, partly because the Global Reporting Initiative (GRI) reporting standards are strongly focused on the issue of materiality, as we explain below.

Once the organization has identified its material issues, it will typically *select the performance indicators* that will be used to measure its progress in responding to such issues. It will then go about *collecting and analysing data* with respect to those indicators. This could include data

Figure 5.4 Basic materiality matrix



from stakeholder surveys, operational data from individual business units, results of social audits of supplier factories, and other forms of hard and soft data from across the organization. The organization will then *prepare a report* (or reports), which could be either hard-copy or online communications, and as standalone reports or integrated into the firm's regular financial reporting and other corporate communications.

An important element in ensuring the information provided by the firm is credible for their intended audience is establishing some kind of *verification and assurance* of the data and analysis conducted. Although not all organizations engage in this practice during social accounting (whereas in financial accounting they are legally required to), it is widely regarded as a critical element in ensuring an organization's accountability to its stakeholders (O'Dwyer, Owen, and Unerman 2011). Typically, assurance is provided by a third-party auditor, such as one of the 'Big Four' accounting firms, or a more specialist social audit consultancy. Following the *publication of the report*, many organizations will seek to determine how effective the report has been in achieving the goals set out at the beginning of the process. This might be through stakeholder consultation as well as social media and web analytics of various kinds. In fact, *stakeholder dialogue* can play a role in virtually any part of the process of social accounting, whether it is setting priorities, identifying salient issues, or determining relevant indicators and data, yet again emphasizing the importance of communication.

Figure 5.3 represents a general social accounting process, but organizations typically develop their own particular approaches. Although this has resulted in some innovative, impressive, and genuinely useful methodologies and reports, it has also led to the production of some vague, self-serving, and rather disappointing efforts that have been useful neither to stakeholders nor to the organization's management. This raises two important questions:

- Why do organizations take up social accounting in the first place?
- What makes for an effective approach to social accounting?

WHY DO ORGANIZATIONS ENGAGE IN SOCIAL ACCOUNTING?

As with many aspects of business ethics, there are both practical and moral reasons for taking up social accounting, but in essence, we can usefully reduce these to four main issues.

- **Internal and external pressure.** Rising expectations from competitors, industry associations, governments, shareholders, consumers, and even internal executives can all provide incentives for firms to engage in various aspects of social accounting (Solomon and Lewis 2002). For example, the socially responsible investment industry and the development of the FTSE4Good and the Dow Jones Sustainability indices have created incentives to audit and report more fully on sustainability issues (see Chapter 2). Similarly, pressure from unions, the media, and pressure groups has prompted firms to develop social auditing practices to evaluate working conditions in their supply chains. As reporting is often a legitimacy-building exercise, it is important to understand how congruence can be achieved between *internal* activities and *external* social expectations (Suchman 1995).
- **Identifying risks.** Social auditing provides organizations with a clearer picture of what is happening in terms of their social, ethical, and environmental impacts throughout their sphere of operations. This information is critical for identifying business risks and other potential problems that can harm the organization and its stakeholders. For instance, in the absence of a thorough audit of its overseas factories, how can an organization know if it is potentially threatening the human rights of its employees or at risk of a major environmental problem?
- **Improved stakeholder management.** At the very least, social accounting provides a new channel of communication to stakeholders, by which organizations might seek to improve their reputation. At a more sophisticated level, though, social accounting helps improve managerial decision-making by providing critical information relevant for stakeholder management (Burritt and Schaltegger 2010). Social accounting can give organizations a clearer picture of what they are trying to achieve, what they are actually doing, and what the implications are of their business activities (Kolk 2010).
- **Enhanced accountability and transparency.** Social accounting is not just about more effective management, though. As we saw in Chapter 2, the need for corporations to make evident their social role and impacts (transparency) is a key requirement for ensuring that they are answerable, in some way, for the consequences of their actions (accountability). Clearly, by reporting on social performance, social accounting can play a significant role in the drive for enhanced accountability and transparency (Gray 1992; Zadek 1998; Owen 2005).

However, there are limitations to engaging in social accounting, particularly as the practice currently stands. Not only is social accounting voluntary, but also without adequate standards, organizations can effectively report on anything they want. Consequently, there is a reasonably strong case for suggesting that corporations 'should' engage in better social accounting, and for many firms, even *some* degree of social accounting would be an improvement. The reporting element of social accounting is still almost exclusively a large firm phenomenon, with few small and medium enterprises producing stand-alone reports (Owen and O'Dwyer 2008). So, there are clearly also a number of important disincentives for social accounting. These include: perceived high costs; insufficient information; inadequate information systems; lack of standards; secrecy; and an unwillingness to disclose sensitive or confidential data.

5

THINK THEORY

Should social accounting be advocated on a consequentialist or principle-based basis? How would the two arguments differ?

Visit the online resources for a suggested response.

WHAT MAKES FOR 'GOOD' SOCIAL ACCOUNTING?

Clearly the question of what is 'good' social accounting will depend on what the initial purpose is, and which perspective–organizational, stakeholder, or other–you are asking the question from. However, it is evident that as the development of tools and techniques have evolved and been refined over time, there is some consensus emerging about standards of quality. The following eight issues, illustrated in **Figure 5.5**, have been proposed as the key principles of quality (see Zadek, Pruzan, and Evans 1997).

5

Figure 5.5 Principles of good social accounting

Inclusivity Good social accounting will reflect the views and accounts of all key stakeholders, involving two-way communication, rather than just one-way communication.	**Comparability** Social accounting should allow for comparisons across different periods, with other organizations, and relative to external standards or benchmarks.	**Completeness** All areas of the organization's activities should be included in the assessment, rather than just those areas where a more positive impression might be realized.	**Evolution** In order to reflect changing stakeholder expectations, social accounting practices should also demonstrate a commitment to learning and change.
Management policies / systems To ensure institutionalization, social accounting should be consolidated within systems and procedures that allow rigorous control and evaluation.	**External verification** The extent to which audiences will have faith in a social account will depend on whether it has been verified as a true representation of reality by an externally trusted body.	**Continuous improvement** Social accounting should be able to encourage the organization to improve its performance, and to extend the process to areas currently unassessed, or assessed unsatisfactorily.	**Disclosure** The issue of accountability would suggest that good social accounting should involve clear disclosure of accounts and reports to all stakeholders, in a form that is appropriate to their needs.

Source: Adapted from Zadek, Pruzan, and Evans (1997)

Existing evidence suggests that many of these principles are not currently integrated particularly well into most companies' social accounting procedures. As O'Dwyer and Owen (2005: 208) note: 'many academic researchers have been critical of key features of emerging practice, given its tendencies towards managerialism at the expense of accountability and transparency to stakeholder groups'. Analyses even of leading social reports suggest that, while improvements are evident, significant deficiencies in some of these quality indicators persist (Belal 2002; O'Dwyer and Owen 2005; Owen and O'Dwyer 2008; Manetti 2011). Milne and Gray (2013) go so far as to claim that current practices mainly serve to reinforce business-as-usual and may even contribute to greater levels of 'un-sustainability'. Such research is critical of the idea of social accounting in only presenting win-win scenarios and failing to account for contradictions between humanity and nature (Tregidga, Milne, and Kearins 2014). It also raises useful questions regarding who is best placed to provide accounts and how such accounts can be used as accountability mechanisms.

To counter this critique, scholars have advocated for a breaking down of silos between economic, social, environmental, and financial impact measurement. In order to achieve this, the focus on the monetization of 'externalities'—impacts that arise from the activities of an entity but do not generate any short-term financial consequences—would need to be addressed to better account for the fact that many externalities do not invite meaningful metrics and measurement. Businesses still struggle to truly identify 'material' issues beyond those prescribed by frameworks such as GRI, and as we see in **Ethics on Screen 5**, such oversights may have disastrous consequences.

Despite these challenges, several important schemes are currently in place that seek to tackle specific aspects and develop adequate standards for social accounting. For example:

- **Auditing and certifying.** The social accountability standard, SA 8000, is a global workplace standard launched in 1997 that covers key labour rights such as working hours, forced labour, and discrimination, and crucially it certifies compliance through independent accredited auditors. Therefore, following inspection, production facilities can be certified as SA 8000 compliant, thus guaranteeing a widely accepted level of ethical performance. SA 8000 was developed through consultation with a broad range of stakeholders, including workers, employers, non-governmental organizations (NGOs), and unions, and by 2018 had certified over 3,860 facilities in 64 countries, amounting to around 2 million workers.[19]
- **Reporting.** The Global Reporting Initiative (GRI) is an international multi-stakeholder effort to create a common framework for reporting on the social, economic, and environmental triple bottom line of sustainability. The GRI was established in 1997 by the Coalition for Environmentally Responsible Economies (CERES) in partnership with the United Nations Environment Programme (UNEP). By 2018, there were more than 12,500 organizations using the GRI guidelines in developing their reports, with 82% of the world's 250 largest corporation using GRI's Standards to guide their reporting.[20] The GRI guidelines have taken an enormous step in the ongoing drive towards harmonization and enhancement of reporting procedures, although it is not without its challenges. To cater for the fact that different companies wish to report on different factors of their performance, GRI is increasingly focusing on 'materiality', i.e. they allow companies to 'provide only information that is critical to their business and stakeholders' rather than attempt to galvanize activity around a single set of metrics for all. It has also developed sector supplements for particular industries, national annexes for country-level information, training materials, and even the provision of specialist guidance for small and medium-sized enterprises.

ETHICS ON SCREEN 5 *Deepwater Horizon*

© PictureLux/The Hollywood Archive/Alamy Stock Photo

> ***Chaos is too small a word to encompass what transpires when all howling hell breaks loose.***
>
> Peter Travers, *Rolling Stone*

At 9.50 pm on 20 April 2010 the 'Deepwater Horizon' offshore oil rig exploded in the Gulf of Mexico, killing 11 crew members. Alongside the tragic loss of life, around 4.9 million barrels (210 million gallons) of crude oil gushed into the ocean over 87 days, resulting in the largest marine oil spill in living history. 16,000 miles of local shorelines were polluted by oil and the impact on sea life was catastrophic with over 8,000 animals, including birds, turtles, and dolphins, among the numbers killed. In short, the explosion of the 'well from hell' marked the largest environmental disaster in U.S. history. But what exactly went wrong?

The film *Deepwater Horizon*, released in 2016 to critical acclaim, traces the critical steps taken by those employees on the oil rig at the time of, and running up to, the explosion. With a star-studded cast including Kurt Russell (Operational Supervisor, Jimmy Harrell), Mark Wahlberg (Chief Electrical Engineer, Mike Williams), and Kate Hudson (Mike Williams' wife, Felicia Williams), the movie has been praised for its dramatization of the disaster and its role in raising awareness of the devastating ecological impacts of deep-water drilling. Tying in neatly with a number of themes covered in this chapter, it is also a film that raises key questions for business accountability, ethical compliance, and environmental management.

The film follows Harrell and Williams' repeated attempts to raise safety concerns about mounting pressure within the rig's oil well with executives from British oil and gas company BP, who had commissioned the rig. Their pleas fell on deaf ears as executives, already frustrated about the project's long delays, curtailed site inspections and shortened standard safety procedures, with fatal consequences. BP executives are presented in this film as not only lacking in technical knowledge, but also moral conscience. Key legislators have agreed with this depiction. In 2014, an investigation found BP to be 'grossly negligent', placing 67% of the blame for the spill on the shoulders of BP, and 33% on subcontractors Transocean (30%) and Halliburton (3%). While BP 'strongly disagreed' with the ruling, placing blame at the door of Transocean (rig owners) and Halliburton (cement company), they did agree to accept criminal responsibility for the spill and have since spent an estimated $65 billion in compensation claims from businesses and individuals affected by the spill, and environmental clean-up costs.

Interspersed with real audio and visuals from testimonies in the aftermath of the disaster, this film strikes an emotional chord and provides an important tribute to those whose lives changed forever on this fateful day. We are also vividly reminded throughout the film of the human and environmental cost of unethical business decisions. Had BP adopted a more proactive rather than laissez-faire approach to safety, could this disaster have been averted? Yes, according to the findings of the independent Deepwater Horizon final report, which claims, 'this disaster was preventable if existing progressive guidelines and practices been followed . . . BP did not possess a functional safety culture.' Further investigations have even gone as far as to suggest that BP was well aware of the safety issues at the oil rig and had experienced some near-miss accidents in the run-up to the disaster.

Also of note is the story that lies behind the making of the film. *Deepwater Horizon*'s Director, Peter Berg, has been vocal about how BP tried to block filming, preventing access to oil rigs (Berg built his own rig), issuing gagging orders to those involved in the incident (Berg accessed testimonials on record), and legislative challenges (Lionsgate, the studio producing the film, commissioned a full-time team of lawyers to oversee filming). It seems that heroics surrounded this film, both on- and off-screen, in telling a story that BP did not want to be told. But before we completely demonize BP (and perhaps suggest additional avenues for corrected action based on insights for this chapter), we also have to take a look at our own lifestyles a little closer to home and consider why BP were in the Gulf of Mexico in the first place. As demand for oil continues to rise, do we have to consider how complicit we are in driving decisions for deep-water drilling?

SOURCES

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https://www.theguardian.com/film/2016/oct/04/the-well-from-hell-my-fight-with-bp-to-film-deepwater-horizon

https://www.imdb.com/title/tt1860357/plotsummary

Visit the online resources for web links to useful sources of information related to this film.

5

- **Reporting assurance.** The AA1000S Assurance Standard, launched in 2002, is the first attempt to provide a coherent and robust basis for assuring a public report and its underlying processes, systems, and competencies against a concrete definition and principles of accountability and stakeholder engagement. The standard is specifically designed to be consistent with the GRI sustainability reporting guidelines.[21]

THINK THEORY

Think about the GRI in terms of Zadek et al.'s (1997) eight principles of quality in social accounting. To what extent would you say it conforms to and contributes to good practice in the achievement of the SDGs?

Visit the online resources for a suggested response.

This list is far from exhaustive and a number of alternative frameworks for sustainability reporting have appeared in recent years, typically with a stronger focus on reporting primarily for investors. The most notable ones are 'integrated reporting' (IR) (promoted by the International Integrated Reporting Council), which focuses on a framework for reporting sustainability and financial data together, and the 'sustainability accounting standards', developed by the Sustainability Accounting Standards Board (SASB), which aim to 'help public corporations disclose material, decision-useful information to investors'. While interest in these additional frameworks continues to grow, research suggests that we still do not adequately understand the impact of such endeavours, particularly in the context of IR (Rinaldi, Unerman, and de Villiers 2018). Additionally, while such frameworks provide valuable benchmarking opportunities for external stakeholders, they may meet resistance from employees who struggle to understand varying applications and interpretations of reporting frameworks. Confusion may undermine the potential of reporting frameworks to enact change, yet there is also evidence to suggest that they serve to drive levels of proactivity and collaboration in the workplace, providing a more impactful vision for managing stakeholders (Maroun and Mcnally 2018).

The impact of the UN SDGs should also not be underestimated in the context of social accounting. Researchers are currently grappling with how social accounting practice might be informed by the SDGs, as well as the role for social accounting in achieving the SDGs, particularly in embedding policy and galvanizing action among industry. From a business perspective, Bebbington and Unerman (2018) highlight that the traction and salience of the SDGs is rising. This is a view echoed in practice (KPMG 2017), with an increasing appetite for accounting tools in support of the SDGs (e.g. PwC's SDG Selector and SDG Navigator), commitments from the accounting profession in support of the SDGs (e.g. the Institute of Chartered Accountants in England and Wales (ICAEW) have vowed to fully embrace the SDGs), and the encompassing of the SDGs within corporate responsibility reporting from the likes of telecommunications company BT and consumer goods company, Unilever. As we progress further towards the 2030 goals for the SDGs, the role of social accounting will no doubt become even more pronounced.

Many of the programmes we have discussed here are still being revised and refined, yet they clearly offer considerable progress in providing more effective means for assessing, and ultimately improving, the sustainability and accountability of corporations through social accounting. And aside from the social context, as we shall now see, important steps have also been taken in the context of environmental management.

ENVIRONMENTAL MANAGEMENT

It is not only the social impacts of a firm's operations that command attention in the context of business ethics. The formalization and systematization of approaches to managing the environmental impacts of business activity has become an important area of consideration since the introduction of key tools, standards, and certifications in the 1980s, such as ISO 9001, focused on quality management. Broadly speaking, **environmental management** relates to business efforts to minimize the negative environmental impact of a firm's products throughout their lifecycle (Klassen and McLaughlin 1996). Its core aim is to improve corporate environmental performance and mitigate against the negative externalities of business conduct, such as energy consumption, air pollution, waste generation, noise control, or placing unnecessary strain on scarce resources such as water. While measures such as integrated reporting (IR) look to harmonize social, economic, and environment reporting, these areas are often managed separately, with additional tools, standards, and processes supporting environmental management pursuits in very practical ways.

Environmental management Business efforts to minimize the negative environmental impact of a firm's products throughout their lifecycle.

Environmental issues, and the management of them, now form part of many sustainability and CSR agendas globally. The move towards corporate 'greening' may, in part, be down to 'external' motivations, such as stakeholder pressure and regulatory compliance, as well as 'internal' motivations, such as economic opportunity in the form of marketplace differentiation, or the ethical motives of business leaders. Yet it is broadly acknowledged that the core motivations as to why companies 'go green' differ across sectors and business contexts, as well as temporarily, for instance in times of economic crisis (Iatridis and Kesidou 2018). Bansal and Roth (2000) found that motivations for greening were higher when environmental activity improved long-term profitability and competitiveness, and when firms held a high desire to improve the appropriateness of their actions within an established set of regulations, norms, values, or beliefs (Suchman 1995). However, in the pursuit of gaining legitimacy from their external stakeholder audiences, exactly how do firms embed their environmental activity within established norms?

The answer lies in the increasing move towards **environmental management systems (EMS)**, i.e. processes through which organizations implement environmental goals, policies, and responsibilities and ensure regular auditing of these approaches (Cascio 1996). Such measures go beyond legal compliance to offer progressive environmental policies as part of an emerging environmental governance paradigm (Kettl 2002). Today, two key environment management standards have evolved to enable voluntary regulation and documentation of business activity in relation to EMS: ISO 14001 and the European Eco-Management and Audit Scheme (EMAS). Both tools establish criteria for evaluating environmental performance and actions to be taken to minimize the harmful impact of business activity on the environment. They also both require the development of a specific methodology to identify and evaluate the environmental aspects of a company's activities and, in doing so, provide a transparent way in which external stakeholders can scrutinize business activity. However, as **Table 5.1** highlights, EMAS considers additional elements of environmental performance. Consequently, for European firms at least, ISO 14001 provides a route to EMAS registration.

Environment management systems The processes through which organizations implement environmental goals, policies, and responsibilities and ensure regular auditing and reporting of these approaches, beyond legal compliance.

With the introduction of EMAS Global in 2010, these two standards are fulfilling their aims to provide universally applicable, international blueprints for environmental management, being utilized by organizations across the globe, regardless of sector. Focusing on ISO 14001 as the most widely adopted voluntary environmental programme globally, Heras-Saizarbitoria, Boiral, and Allur (2016) have found significant variation in adoption rates across countries. Europe continues to lead certification, with 40% of ISO 14001 certificates issued within the European Union in 2015. East Asia comes in at a close second, demonstrating major growth in environmental certification. This is particularly driven by China, which holds a 36% share

Table 5.1 Overview of ISO 14001 and EMAS

	ISO 14001	EMAS
Drafting entity	International Organization for Standardization (ISO)	The European Commission
Released	2004 (version 1), 2015 (version 2)	1993 (version 1), 2009 (version 2)
Methodology	Plan-Do-Check-Act (PDCA) (Deming 1986)	Plan-Do-Check-Act (PDCA) (Deming 1986)
Core elements	• Protecting the environment by preventing or mitigating adverse environmental impacts; • Assisting the organization in the fulfilment of compliance obligations; • Enhancing environmental performance; • Controlling or influencing the way the organization's products and services are designed, manufactured, distributed, consumed, and disposed through a life cycle perspective; • Achieving financial and operational benefits that can result from implementing environmentally sound alternatives that strengthen the organization's market position; • Communicating environmental information to relevant interested parties.	• Stricter requirements for the measurement and evaluation of environmental performance against objectives and targets, and the continuous improvement of that environmental performance; • Compliance with environmental legislation ensured by government supervision; • Strong employee involvement; • Environmental core indicators that provide easy comparability and connect with an organization's validated, externally facing environmental statements, which provide information to the general public; • Registration by a public authority after verification by an accredited/licensed environmental verifier.
Audit	Evidence of at least two internal audits: one annual external audit and provision for internal audits	Evidence of at least two internal audits: one annual external audit and provision for internal audits plus, accredited third-party verifier prior to publication
Usage to date	346,189 ISO 14001-certified organizations (ISO 2016)	13,872 EMAS-registered companies (European Commission 2014)

Source: Adapted from Iatridis and Schroeder (2016)

in certification. Perhaps somewhat more surprising is that North America holds less than 2% of ISO 14001 certificates issued globally. Delmas (2002) attributes this to the fact that the US institutional environment acts as a deterrent to ISO 14001 adoption, as companies are fearful of such transparent certification processes, which open up commercial performance to public scrutiny. Governments in Europe, by comparison, provide much more incentive for adoption through endorsing trusted certification systems and providing technical assistance to potential adopters. Certifications also continue to lag in Western and Southern Asia, as well as Africa. In the case of Africa, impediments include the weak institutional framework, the lack of human and financial resources, and corruption, alongside specificities of local African culture, which may be in opposition to the values embodied in ISO management standards, such as oral tradition, paternalism, hierarchical distance, and collectivism (Tene, Yuriev, and Boiral 2018). Such nuances in cultural context suggest that ISO management systems, and benchmarking of EMS globally, should offer some form of adaption to local country context.

Overall, while standards such as ISO 14001 and EMAS go a long way in formalizing environmental management, by providing systematic frameworks for environmental concerns to be translated into operations, they are not without their critics. As the standards do not demand any change or improvement, many argue that they are not aspirational and do not necessarily result in any improved environmental performance (Nawrocka and Parker 2009). The recent crisis surrounding Spanish alternative energy provider Abengoa is testament to this issue. As part of its mission to 'create innovative technological solutions for sustainable development in the infrastructures, energy, and water sectors that contribute to social well-being',[22] Abengoa ensured compliance with ISO 14001 and EMAS. Yet in 2016, the firm suffered a financial collapse, not before it reportedly received a €1m penalty for breaching its environmental permit in the Netherlands, exceeding mandated odour levels of bioethanol.[23]

Such incidences have led to the questioning of the efficacy of EMS and the acknowledgement that some firms utilize environmental standards symbolically, failing to truly integrate standards such as ISO 14001 and EMAS substantively into their daily operations (Aravind and Christmann 2011). 'Softer' and flexible forms of self-regulation, such as ISO 14001, are seen by some as voluntary programmes with 'weak swords'—weak monitoring and sanctioning mechanisms—that mitigate 'shirking' practices (Potoski and Prakash 2005). This criticism is particularly levied against ISO 14001, given that enforcement mechanisms are based on third-party audits that are not publicly disclosed. What's more, the inevitable variability in implementation of these standards results in some level of opaqueness around how the standards are actually evaluated, resulting in customers and other stakeholders having no clear way of telling which certified firms are high-quality and which are low-quality implementers (Aravind and Christmann 2011).

At a more granular level, some firms may avoid adopting certifications altogether. Small and medium-sized enterprises (SMEs), for instance, lack the resource to engage in the rigorous approaches advocated by the likes of ISO 14001 and instead opt for more informal EMS instead (McKeiver and Gadenne 2005). Non-profit organizations, such as CERES, also offer support for organizations in this regard, through their 'Roadmap for Sustainability', which provides a framework for managing environmental issues as a key part of a holistic sustainability agenda.[24] We are also seeing increased use of 'science-based targets' that drive the transition to a low-carbon economy through encouraging firms to set stretching decarbonization targets to limiting global warming to well below 2 degrees Celsius.[25] These challenges are, however, further pronounced when we consider EMS in a developing country context; a theme explored in **Ethics in Action 5.2** through the lens of small-scale manufacturing firms in Bangladesh.

Environmental management and subsequent systems and standards may not be a panacea, but they provide important tools through which to assess not only the environmental impact of business activity, but also avenues for innovation and sources of competitive advantage. Brands such as U.S. consumer goods company Colgate Palmolive, which was named a 2018 'Energy Star' by the U.S. Environmental Protection Agency and the U.S. Department of Energy, have witnessed significant reputational benefit from taking an active stance on environmental issues. Environment management is just one part of a proactive approach to managing business ethics and, as we see now, there remain additional tools to consider in organizing for business ethics management.

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Ethics in Action 5.2 Managing environmental responsibility in small-scale manufacturing firms: examining indigenous tanneries in Bangladesh

Md Nazmul Hasan

Small-scale manufacturing firms contribute significantly to economic growth in many low-income developing countries around the world (Blackman and Kildegaard 2010). However, the owner-managers of such firms are constantly criticized for failing to take initiatives to reduce the negative environmental impact of their businesses seriously. Here I explore the opportunities and challenges facing tannery owner-managers in Bangladesh as they grapple with developing adequate environmental management systems.

The tannery sector in Bangladesh

The tannery sector is the fourth largest foreign exchange earner in Bangladesh, contributing about 6% of total export earnings (Strasser 2015). However, during the process of tanning—the treatment of animal hides to make leathers—pollutant discharges are released into the atmosphere, which have severe impacts on the social and physical environment. The Department of Environment (DoE) has categorized the sector as the most polluting industry, ahead of pulp and paper, pharmaceuticals, and fertilizer/pesticides (Garai 2014).

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The inherent nature of the tanneries acts as a barrier to pro-environmental performance. The local tanneries often operate informally and on a variety of scales, ranging from small, petty traders to large firms. Some of these are export-oriented and serve higher-end Western markets, while others exist to fulfil domestic demand and operate merely to survive. Despite such diversities, the environmental performance of these tanneries is generally poor. Smaller sites are usually unregistered, are not subject to environmental and labour laws, and operate on an ad-hoc basis as suppliers of local buyers. Many get away with ethically suspect behaviours, such as dumping toxins into the air or water, exploiting teenage workers, and faking trade licenses by bribing local authorities and changing their business locations from time to time (Hasan 2018).

The environmental performance of small-scale, export-oriented tanneries is unfortunately not so good either; this is because they are often second- or third-tier suppliers, the operations of which are difficult to identify and monitor by international auditors, non-governmental organizations (NGOs), or national trade unions (Jamali et al. 2017). The continuous violations of environmental regulations and labour rights in Bangladeshi tanneries, and in the garments industry worldwide, highlight the difficulties connected to the monitoring of the lower tiers of the global value chains that link international consumers, buyers, local suppliers, contractors, and workers in developing countries (Lund-Thomsen and Lindgreen 2014). Yet perhaps there is some light at the end of the tunnel.

The wins: Environmental management is becoming a necessity

> 'If tanneries want to remain competitive and stay up-to-date with the buyers' demands, then they must make the best use of latest technologies'
>
> —A local tannery owner-manager

The first-generation tannery owner-managers in Bangladesh had little understanding of the environmental impact of their business operations. However, the second/third-generation owner-managers are more aware of the environmental issues related to the business of tanning. Most of them hold postgraduate qualifications, thanks to the establishment of some leather and leather-related educational and training institutes in the recent past. The second/third-generation owner-managers have, therefore, a better understanding of sustainable leather production and mostly perceive environmentally responsible initiatives as an added value to their businesses. Most importantly, they have realized that Bangladesh will not be the same in ten years and that there will be more demand for environmental compliance as the economy improves. Also, some of the second/third-generation owner-managers are teaching themselves new skills, such as salt-free tanning, which reduces the environmental impact of tanning practices, particularly in relation to local rivers and waterways. They are also seeking technical support from European consultants, who they meet at regular international trade shows. So, there is a burgeoning appetite for ethical leadership and managing environmental performance more proactively among many owner-managers. That said, many issues are unfortunately more deeply engrained into the culture of this enduring sector of India's economy.

The challenges: to many, environmental management is still a 'luxury'

> 'If you're talking about purchasing raw materials responsibly, it also means that I don't have to pay unfair prices for my raw materials, right? But this is also a problem in Bangladesh. Tannery owners can, sometimes, be confronted with extremely high prices that are incompatible with the international leather market.'
>
> —A local tannery owner-manager

Despite a lot of enthusiasm from the second/third-generation tannery owner-managers, the overall environmental performance of the tannery sector in Bangladesh is still facing a number of hurdles. Firstly, there is a lack of collaboration among the tannery owner-managers, who portray cynical attitudes towards each other on environmental issues. The owner-managers of environmentally unfriendly tanneries are not keen on learning about pro-environmental initiatives from environmentally proactive organizations. Similarly, the owner-managers of environmentally proactive tanneries are also uninterested in helping other owner-managers with relevant information regarding environmental protection. Such cynical attitudes possibly imply that a collective vision and a culture of cooperation should be prioritized over competition. To make matters worse, many have personal clashes over raw material souring, chemical business, land acquisition, and financial (e.g., bank loan) issues. Although the tannery owner-managers regularly meet each other in local and international trade fairs, and in meetings with government officials, they rarely discuss collective approaches that can be taken to mitigate environmental pollution.

Secondly, at the micro level, despite having a positive interest in improving the environmental performance of their firms, the second/third-generation owner-managers are constrained by a number of other factors such as poverty, pervasive corruption, and poor regulatory and socio-economic environments. Oftentimes they fail to materialize their positive environmental attitudes into actions due to a lack of 'professional moral courage' (Sekerka, Comer, and Godwin 2017). They understand that environmental protection is something they should be considering very seriously but, in most cases, they do not have the courage to act, due to lack of support from other stakeholders.

Finally, the tannery sector is facing more urgent problems, particularly loss of production as costs steadily increase due to insufficient supplies of gas and electricity. For many small-scale tannery owner-managers, thinking about environmental protection is a luxury amidst such energy crises, where even day-to-day survival is difficult. This fits the almost universal narrative (also found in the West) that environmental protection is a 'nice to have' that can only be dealt with once economic conditions allow. Energy shortages impact the smaller tanneries most, given that large-scale organizations are able to source expensive fuel oil-based energy or set up their own power stations.

Final words

The appetite among younger owner-managers to better understand local environmental priorities and environmentally friendly manufacturing techniques is obviously a step in the right direction.

This implies that such businesses might be better at recognizing future opportunities for achieving competitive gains by taking pro-environmental actions, leading to change in the industry. However, incentives for environmental action still need to be provided by governmental agencies in Bangladesh, such as special tax rebates aimed at encouraging younger owner-managers to develop green technology solutions. More efficient platforms to disseminate efficient production methods, especially to non-export-oriented tanneries, would further benefit developing countries that are often isolated from international knowledge transfer (Vazquez-Brust et al. 2010). The sharing of success stories, in which a commitment to environmental sustainability has shown long-term positive results, may help the Bangladeshi tanneries to become more sustainable.

In terms of tackling the lack of collaboration among tannery owner-managers in Bangladesh, one possible solution might be to encourage direct meetings to share ideas. More consultation would mean that the owner-managers gain valuable opportunities to discuss their problems and limitations with each other, and to engage with policymakers, helping the latter to design policies that are sensitive to the needs and demands of the local small-scale tanneries. Tanneries are, of course, used to collaborating with suppliers and customers for financial benefits, and the sector has its own trade association known as Bangladesh Tanners Association (BTA). Such connections offer frameworks suited for initiating concerted activities in the field of pollution prevention and potential optimism for the future of environmental management in Bangladesh.

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QUESTION

Consider the challenges faced for environmental management in the Bangladeshi tannery sector in the context of Hofstede's six dimensions introduced in Chapter 4. How useful are frameworks such as ISO 14001 and EMAS in overcoming these challenges?

Visit the online resources for web links to useful sources of further information.

ORGANIZING FOR BUSINESS ETHICS MANAGEMENT

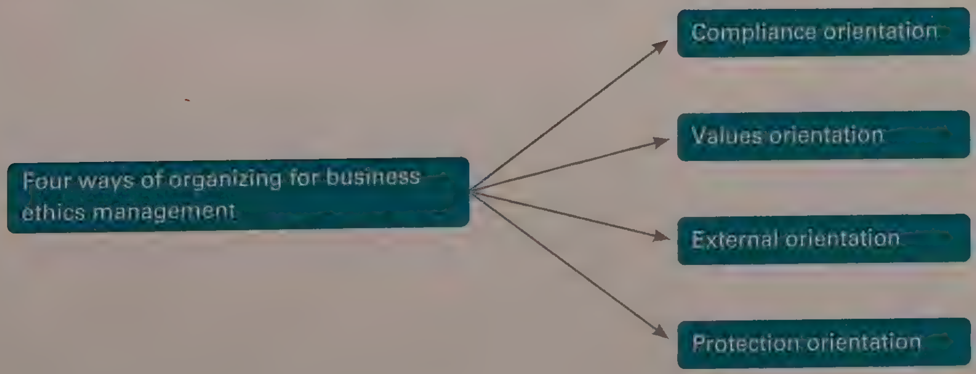
If businesses are going to directly manage business ethics, then at some stage they are likely to face the question of how best to organize the various components and integrate them into the company in order to achieve their goals. In the US, it has become commonplace for business ethics specialists and textbooks to advocate formal ethics or compliance programmes, and such an approach has been taken up by many leading US corporations. However, due to a different regulatory environment, as well as significantly different business cultures in Europe, Asia, and elsewhere, such a formal approach to business ethics management has been much more rarely promoted or adopted outside North America. However, the increasing attention being devoted to ethics, social responsibility, and sustainability across the globe suggests that a more formal approach to management is becoming widespread and can be expected to become more so in the future.

FORMAL ETHICS PROGRAMMES

According to Treviño et al.'s (1999) classic text, there are four main ways of approaching the formal organization of business ethics management (see **Figure 5.6**):

- **Compliance orientation.** Under this approach, the main emphasis is on preventing, detecting, and punishing violations of the law. Employees are informed of the law and are motivated to do the right thing through fear of being caught. This is based on the assumption that, regardless of their own values, the competitive environment may encourage employees to do whatever it takes to get a job done, including illegal or unethical activity (Hoffman, Driscoll, and Painter-Morland 2001).
- **Values orientation.** This approach is based on defining organizational values and encouraging employee commitment to certain ethical aspirations (Paine 1994). According to Treviño et al. (1999: 135), the values approach is 'rooted in personal self-governance' and provides the means for ethical decision-making where no particular rules are in place.

Figure 5.6 Organizing for business ethics management



Source: Derived from Treviño et al. (1999)

- **External orientation.** An external orientation focuses less on company values and more on satisfying external stakeholders, such as customers, the community, and shareholders (Treviño et al. 1999). Here, what is regarded as right is what is expected, or at least acceptable, to key external constituencies.
- **Protection orientation.** Finally, Treviño et al. (1999) suggest that some programmes are (or at least are perceived to be) primarily oriented towards protecting top management from blame for ethical problems or legal violations. Employees and other stakeholders may see the introduction of ethics management as little more than an attempt to create legal cover for managers in case of accidents or legal infractions of some sort.

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Traditionally, in the US, compliance approaches have dominated (Weaver et al. 1999), whereas in Europe and Asia, as we have seen, the emergence of ethics management has tended to be driven more by external and values-based approaches. However, the important thing to remember is that these four approaches are not mutually inconsistent, and most organizations are likely to combine two or more approaches (Weaver, Treviño, and Cochran 1999). For example, earlier in the chapter we explained that many ethical codes are based on core corporate values and principles (a values orientation), whereas the effectiveness of such codes also depended on appropriate implementation and follow-through, such as the disciplining of employees found in breach of them (compliance orientation). Similarly, rigorously policed ethical auditing processes based on stakeholder consultation and engagement might be said to combine values, external, and compliance orientations.

Research on the effectiveness of different approaches (and combinations of approaches) is developing to acknowledge that a values orientation is the most effective single orientation for encouraging ethical behaviour, although compliance and external orientations should also, to a lesser degree, be helpful. A protection approach was found to be a clearly harmful approach. Nonetheless, regardless of their importance, these formal elements are only one aspect of business ethics management. As Treviño and Brown (2004) argue, the idea that formal ethics codes and programmes are sufficient to manage ethics is no more than a commonly held myth. And more recently, studies have suggested that sustained ethical improvements do not arise from the inculcation of organizational values, suggesting that approaches to instil values-based orientations may be 'purely cosmetic' (Warren, Gaspar, and Laufer 2014). In organizing for business ethics management, it is important to also consider the ethical culture of the organization.

THINK THEORY

Think about the growth in business ethics management, identified earlier in the chapter, which is due to the impact of Sarbanes–Oxley legislation and other regulatory and governance reforms. Are these developments likely to initiate business ethics management that is characterized by a compliance, values, external, or protection orientation?

Visit the online resources for a suggested response.

INFORMAL ETHICS MANAGEMENT: ETHICAL CULTURE AND CLIMATE

In Chapter 4 we saw how the culture and norms of an organization could have a profound effect on ethical decision-making. However, this does not necessarily mean that culture can be simply changed or made 'more ethical' to support enhanced business ethics. Nonetheless, this is exactly the argument that has been commonly advocated in the business ethics literature. Improvements in ethical decision-making have been widely argued to require a managed transformation of the organization's values in order to create a 'more ethical' culture (Chen, Sawyers, and Williams 1997; Schwartz 2013; Treviño and Nelson 2014). The US-based Ethics Resource Center (2014: 22), for example, concludes from its ongoing research of ethics in the workplace that 'strong ethics cultures reduce both misconduct overall and the likelihood that a misdeed which does occur is a pervasive, ongoing issue'.[26]

Despite the popularity of the *ethical culture change* approach, there has been limited attention focused on establishing how such a transformation might take place, why it might occur, or even if it is possible at all. As the management and organizational studies literatures have so effectively demonstrated, the deliberate management of culture is a difficult, lengthy process, which is rarely successful, except at very superficial levels.[27] Indeed, there has been precious little empirical evidence in the literature that provides wholesale support for the claim that culture can indeed be managed in the realm of ethical behaviour. Existing cultural beliefs and values about what is right and wrong tend to be very resistant to change (Anand, Ashforth, and Joshi 2004; Desmond and Crane 2004). We must appreciate that ethics is a nuanced and complex concept given how diverse we all are; clearly a one-size-fits-all approach to ethical culture can be problematic to define.

Accordingly, the use of explicit culture change to improve corporate ethical behaviour has also been seriously questioned. Amanda Sinclair (1993: 68), for example, concludes that: 'the lessons from research are that you meddle with the organizational culture if you've got little choice, lots of resources, and lots of time—a combination of circumstances, some would argue, rare enough to render the approach irrelevant'. Peter Dahler-Larsen (1994) further contends that attempts to create 'ethical cultures' tend to reward conformity rather than the very autonomy that is crucial for a sense of morality to exist. Even the Ethics Resource Center (2014), which is one of the most strident advocates of culture change approaches, acknowledges that despite heightened attention to ethics management, only around one-fifth of US companies have a strong ethical culture—and that this has remained more or less constant between 2005 and 2017.[28] This is a significant finding, as in strong cultures, wrongdoing is significantly reduced.

A somewhat different approach has, therefore, also been advocated, which focuses more on *ethical cultural learning*. Rather than seeking conformity to a single set of values, the learning approach focuses on smaller subcultural groups within the firm and enabling employees to make their own ethical decisions. By encouraging surveillance, dialogue, and critique between these subcultural groups (and with the firm's stakeholders), 'ethical discourse and dialectic as well as conflict' can be prompted, thus bringing to the surface and challenging commonplace assumptions and behaviours (Sinclair 1993: 69). Ken Starkey (1998) thus contends that moral development in organizations requires factionalism and dissent in order to promote learning. The role of management consequently becomes one of identifying conflicting values, unleashing the moral commitment of subcultures, and from this promoting *moral imagination* rather than imposing authoritarian *ideological control* (Stansbury and Barry 2007).

Clearly both approaches have their merits and problems. The ethical culture change approach may have only limited potential to effect real change, but it is considerably more attractive to many firms, who not only desire considerable control over the culture, but may also be worried about the potentially damaging effects of bringing out moral differences through ethical cultural learning. Moreover, both pose significant challenges for company leaders in shaping a more appropriate context for ethical decision-making.

BUSINESS ETHICS AND LEADERSHIP

Whatever approach an organization might have to managing business ethics, whether it is formal or informal, compliance based or values based, minimal or extensive, the role of the organization's leaders in demonstrating **ethical leadership** is going to be significant (Ciulla 2013). Good examples are companies such as Walmart or Coca-Cola, which over the years have faced a range of ethical criticisms, but have more recently undergone major turnarounds, primarily initiated by their CEOs at the time (Doh and Quigley 2014). Similarly, previous Unilever CEO, Paul Polman, was widely credited with instigating the company's lauded Sustainable Living Plan and, more recently, marrying this up with the UN SDGs.

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Ethical leadership Describes the role of senior managers in setting the ethical tone of the organization and fostering ethical behaviour among employees.

Leaders are often said to set the ethical tone in organizations. If they are perceived as being ruthless and inconsiderate in their dealings with others, or if they seem to care only about the short-term bottom line, employees are likely to get that message, too. On the other hand, research has shown that the personal values of CEOs can significantly influence the degree to which their companies engage in responsible practices (Chin, Hambrick, and Treviño 2013). Leaders can also play a significant role in the contextual factors, such as authority, norms, and culture, which we have shown to be key influences on ethical and unethical decision-making (Sims and Brinkmann 2002). Conversely, ethical leaders may in fact prompt 'facades of conformity' among employees (Hewlin, Dumas, and Burnett 2015), suggesting that positive attitudes in leaders towards ethics may not always promote positive responses from others in the organization.

Unfortunately, although leadership is one of the most widely discussed and researched areas of organizational behaviour, there has been considerable disagreement about even the most elemental aspects of the subject (Gini 1997). However, the main starting point is usually to delineate leadership from management. According to Kotter (1990), whereas management is about *imposing order*—through planning, organizing, budgeting, and controlling—leadership is more about *coping with change*—setting direction and vision, motivating and inspiring people, and facilitating learning. For many writers, leadership is an intrinsically moral terrain, for it is fundamentally entwined with a particular set of values or beliefs about what is the right thing to do. As Gini (1997: 325) argues: 'All leadership is value laden. All leadership, whether good or bad, is moral leadership . . . The point is, all leadership claims a particular point of view or philosophical package of ideas it wishes to advocate and advance. All forms of leadership try to establish the guidelines, set the tone and control the manners and morals of the constituency of which they are a part.'

If one accepts this argument, then leaders clearly have a profound role in shaping the ethical decisions of their employees. However, as we saw above in relation to the management of culture, it is one thing to say that something–leadership, culture, etc.–*shapes* business ethics, but it is quite another to then suggest that one can simply *change* the culture or the leadership to ensure ethical behaviour. Nonetheless, it would appear reasonable to conclude that, since leaders do appear to influence the actions of their employees, it is important to look at how best to develop ethical leadership.

If we return to our two approaches to managing for an ethical culture–*ethical culture change* and *ethical cultural learning*–it is possible to identify two very different modes of ethical leadership. Under the culture change approach, the leader's role is to articulate and personify the values and standards that the organization aspires to, and then to inspire and motivate employees to follow their lead. For example, Treviño et al. (1999) suggest that there are two pillars to developing a reputation for ethical leadership: to be perceived as a *moral person* and as a *moral manager*. For the executive to be perceived as a moral person, employees need to recognize genuine individual traits in them such as honesty and integrity. To be seen as a moral manager entails focusing the organization's attention on ethics and values and infusing the organization with principles that will guide the actions of all employees. This is a well-worn path for commentators on business ethics to go down, but it holds clear dangers if employees perceive a credibility gap between the public pronouncements of senior executives and the reality they experience according to their view 'from the trenches' (Badaracco and Webb 1995). As we saw earlier in the chapter, follow-through is often more important in encouraging ethical behaviour than statements of beliefs or codes of ethics.

From the cultural learning perspective, the role of leadership is more one of participation and empowerment in order to foster moral imagination and autonomy. Thus, employees are encouraged 'to think independently, to be able to make reasoned, responsible evaluations and choices on their own; to be, in short, free moral agents' (Rosenthal and Buchholz 2000: 194). There are resonances here with those advocating both postmodern ethics and discourse ethics. Ethical behaviour is not to be promoted simply through the promulgation of specific beliefs and principles, but through facilitating personal moral engagement, dialogue, and choice (Crane, Knights, and Starkey 2008). There are dangers here too, though–such as shifting from encouraging individual choice to accepting moral relativism or surrendering control over employees and their decisions.

Ultimately, given the controversy and debate that continues to rage in the leadership literature, there is unlikely to be any real consensus emerging in relation to ethical leadership. Clearly, though, it is an important area of business ethics management, and without top management support, most of the tools and techniques discussed in this chapter cannot, alone, improve business ethics. However, there is always a slight danger of focusing too strongly on the few people at the top of the organization when many of the fundamentals of business ethics are about the day-to-day decisions we make in our organizational lives.

SUMMARY

As this chapter has demonstrated, the area of business ethics management is evolving rapidly, and much of the literature we have covered here has been at the very forefront of contemporary business ethics theory and practice. As a result, much of what we have presented is, by its very nature, somewhat partial and inconclusive. Nonetheless, we have shown that the nature of business ethics management increasingly emphasizes an external, socially based orientation, rather than concentrating solely on ethical codes to ensure compliance. Indeed, we have shown that the effectiveness of codes of ethics has been seriously questioned, with current thinking stressing the importance of implementation over content. We have also set out a clear picture of developments in stakeholder management, social accounting, environmental management, and organizing for the management of business ethics.

It seems that organizations are still on a learning curve regarding ethics management. While there may well be little substance behind some superficial codes of ethics or glossy social reports, this does not mean that we should denounce all business ethics management as cynical window-dressing. Progress is being made through the tools and techniques we have addressed in this chapter, but the scale of the sustainability issues we face continues to gather pace. The key issue to address is how to determine what makes for best practice in each area, and how best to establish widely accepted frameworks and quality standards through which meaningful evaluations and comparisons can be made. In addition, it is important to recognize that the application of these tools can only ever assist in managing business ethics, and their success or failure rests not so much on the tool itself but on the motivation for its use, the process of its development, and the manner in which it is implemented and followed up.

STUDY QUESTIONS

1. What are the main elements of business ethics management? To what extent are they likely to be used in large versus small companies?
2. What are codes of ethics and how useful are they for the management of business ethics?
3. Set out the main types of relationship that corporations can have with their stakeholders. Are any of these types preferable? Explain your answer with reference to examples from current business practice.
4. What is social accounting and why do companies engage in it?
5. Assess the relative benefits and drawbacks of environmental management in supporting a formal approach to business ethics management. How does this differ from a more informal approach to business ethics management?
6. Identify a well-known business leader and critically examine the case that they are an ethical leader.

RESEARCH EXERCISE

Search on the internet for examples of two companies that produce social reports where the two companies are either:

(a) from different industries but in the same country; or

(b) from the same industry but in different countries.

1. What differences are evident between the two companies in terms of the range of issues dealt with in the reports and the depth of coverage on specific issues?
2. To what extent can these differences be explained by the country or industry differences? What other explanations might there be?

3. Assess the apparent quality of the social accounting approach utilized by each company according to Zadek et al.'s (1997) criteria.
4. How appropriate would it be for the two companies to use the same standardized approach?

KEY READINGS

1. Burritt, R.L. and Schaltegger, S. 2010. Sustainability accounting and reporting: fad or trend? *Accounting, Auditing & Accountability Journal*, 23 (7): 829–46.
   This is a comprehensive review of the literature on social accounting from a sustainability perspective. The analysis is particularly useful as it combines managerial and critical perspectives on a field that is often sharply divided along these lines.
2. Treviño, L.K., Hartman, L.P., and Brown, M. 2000. Moral person and moral manager: how executives develop a reputation for ethical leadership. *California Management Review*, 42 (4): 128–42.
   This article addresses the question of what it means to be an ethical leader. Featuring the results of a survey of employees, it shows the importance of different dimensions of ethical leadership. A 'must-read' for anyone hoping to develop a reputation for ethical leadership!

Visit the online resources for further key reading suggestions.

5

CASE 5 Siemens: engineering change in anti-corruption

This Case examines the Siemens bribery scandal and its repercussions for the firm's approach to the management of ethics and compliance. The Case examines the circumstances that led to the firm paying the highest ever fine for a bribery settlement, and the actions Siemens

subsequently took to institute an industry-leading management system to help eradicate the root causes of bribery at the firm and to guard against future violations.

Founded in Germany in 1847, Siemens is not only Europe's largest engineering company, but it also regularly counts among the top 50 companies in terms of revenue among the global Fortune 500. The engineering giant produces a wide range of goods and services, from light bulbs to power stations, and has a leading position in many of its markets, which include white goods, rail transportation systems, healthcare technology, IT, and financial services, to name just a few. It is a large, decentralized conglomerate operating in more than 190 countries, and employing more than 370,000 people across the globe.

Despite its impressive commercial track record, and a regular place high on various lists of most respected companies, Siemens also has one record that it is no doubt rather less proud of. In December 2008, after a long-running bribery scandal, the company settled out of court with the US authorities and was landed with a record-breaking fine of $800 million—at the time a figure far in excess of any previous penalty imposed under the US Foreign Corrupt Practices Act. While in recent years firms such as Rolls Royce, French transport company Alstom, and Brazilian engineering company Odebrecht have paid a whopping $880 million, $1 billion, and $2.6 billion in fines for bribery-related crimes, respectively, Siemens' settlement, along with fines levied in Germany and other countries, as well as a World Bank settlement in 2009, brought the total paid by the company to more than $1.7 billion. This was roughly 35 times larger than any previous anti-corruption settlement. However, including lawyers' and accountants' fees charged to the company during the cases, the full cost was ultimately even higher, at well above $2.5 billion in total.

The company had been investigated on multiple counts of bribery, adding up to more than $2.3 billion in alleged payments during the 1990s and early 2000s. This included allegations of $5 million paid to the son of the Bangladeshi prime minister for a mobile phone contract, $22 million to Chinese officials for a metro trains deal, and $40 million worth of payments in Argentina for a $1 billion contract to produce identity cards—just to name a few examples.

The scandal unfolds

The Siemens case started coming to light in the early 2000s, when prosecutors in Germany and the US first began investigating allegations of bribery at the company. The firm and its leadership initially denied any knowledge of the payments. But with more incidents coming to light, the magnitude of the payments becoming ever higher, and trials of former company managers suggesting that bribery was common practice in the firm, this position became increasingly tenuous.

As the scandal unfolded, it became clear that bribery at Siemens was not simply a case of a few rogue managers acting alone and breaking the company rules to secure lucrative overseas contracts. Corruption looked to be endemic in the company, or, as one prosecutor put it, 'bribery was Siemens' business model'. The various investigations and subsequent trials brought to the surface a murky picture of payments made to public officials in a bid to win large overseas contracts for the company. Given that much of Siemens' business relies on large government contracts, often in developing countries with poor governance and a high prevalence of corruption, Siemens' managers had often found themselves in a competitive market where they and their rivals were frequently expected to bribe to secure business. According to various witness statements, Siemens' employees often simply thought that bribery was how the game was played and that they had to engage in corruption in order to win business, and keep jobs secure and their company strong. Corruption appeared to be seen in rather amoral terms and as a victimless crime—if a crime at all. Furthermore, it did not exactly help that the German corporate tax code only made bribery technically illegal in the late 1990s. Until then, bribes paid in foreign countries were even tax deductible and were declared under the notorious label 'useful expenses' (in German: *nützliche Aufwendungen*).

Siemens, like most German multinationals, also tended to grant a lot of autonomy to local executives—the argument being that they dealt with complex technical products with a need for a high level of customer-specific local adaptation. The downside from an ethical perspective, however, appeared to be twofold. First, decisions about payments could be taken locally, without any real oversight or understanding from the headquarters. Second, if the leadership back home did become aware, the decentralized structure could make it difficult to implement effective ethics management across the firm's span of operations.

When the first signs of the bribery allegations surfaced in 2005, the then newly appointed CEO announced that fighting corruption would be his top priority. However, by 2007, he and the supervisory board chairman had both been forced to resign because of the ongoing stream of bribery allegations that engulfed the company. The firm then made its first appointment of an outsider as CEO, Peter Löscher, who was tasked with getting the firm back on its feet again.

Beginning the ethical turnaround

Löscher, the new CEO, needed to act fast to head off the bribery scandal, but he also faced a company with corruption apparently deeply engrained in its culture, making it particularly hard to initiate a major change in attitudes. Many Siemens employees had been with the company for their entire career, leading to densely woven webs of contacts, informal relationships, and networks, in which problems like corruption (and its cover-up) could thrive. As the trial hearings revealed, the maintenance of corruption on the scale alleged at Siemens had actually required a deep degree of loyalty from employees. One executive testified to the court that he was chosen to become the co-ordinator of the 'useful expenses' payments because his superiors trusted him and because he was a loyal worker who could be relied on not to simply direct some of the bribe money into his own pockets.

Within the first few months of his tenure, Löscher had made wholesale changes, including replacing 80% of the firm's top-tier executives, 70% of its second tier, and 40% of its third tier. To ensure that auditing personnel throughout the company were competent, every member of the firm's 450 audit function was required to reapply for their jobs. Siemens also brought in a new General Counsel, appointed the co-founder of Transparency International (an international anti-corruption NGO) to serve as its compliance adviser, and agreed to co-operate with the US authorities in its investigations. The firm also initiated an amnesty for any whistle-blowers with knowledge of bribery in the company (which was taken up by more than 100 staff) and spent millions on an internal investigation conducted by a US law firm. The new leadership team began spreading the message across the company that 'only clean business is Siemens business'.

Siemens institutes a new compliance infrastructure

Central to the new approach instituted by Löscher and his new management team was a much enhanced and far-reaching compliance system. The firm set up a compliance management system to oversee the prevention, detection, and response to legal and ethical violations at the firm. From 86 compliance officers in 2006, the firm soon expanded to more than 500. Siemens also developed a series of anti-corruption compliance policies, tools, and communication channels, including a compliance audit department, web-based risk assessment tools for employees, and 24/7 secure reporting channels for employees and external stakeholders. The new compliance system also involved systematic training for Siemens employees.

Many of these changes were already implemented when Siemens was finally sentenced by the Department of Justice in 2008. For example, extensive compliance training had been provided to over half of the workforce by the time the fine was handed down. By September 2008, Siemens' senior leadership had also visited 54 of the firm's highest-risk countries as part of a 'compliance roadshow' to explain to country managers and employees the importance of compliance. Indeed, Siemens' impressive efforts to institute the new compliance system, along with its willingness to conduct its own independent investigation and co-operate with the Department of Justice investigators, meant that the huge $800 million fine it received was actually far less than it would otherwise have been. As the Department of Justice stated, 'the reorganization and remediation efforts of Siemens have been extraordinary and have set a high standard for multi-national companies to follow.'

Although the nature of the final settlement in the US did not actually require Siemens to admit to bribery (it was only required to admit to having inadequate controls and keeping improper accounts), the firm acknowledges that it experienced 'systematic violations of anti-corruption laws and accounting regulations . . . over many years'. The new Siemens leadership made it clear that the firm needed to continue to change its ways. As the CEO, Peter Löscher, said: 'We regret what happened in the past but we have learned from it and taken appropriate measures. Siemens is now a stronger company.' After the US ruling, Siemens also moved to integrate compliance measures into personnel processes, such as hiring, promotions, and management bonuses. In 2012, a new comprehensive compliance risk assessment system was subsequently instituted, whereby compliance risks are systematically identified, assessed, and mitigated by senior management on an annual basis.

One of the biggest challenges facing Siemens is ensuring that its ethics management does not conflict with its business success. According to Löscher, 'performance with ethics—this is not a contradiction, it is a must', but if their clients still seek bribes and their competitors are willing to pay them, then Siemens may well be faced with a handicap. One way that the firm has sought to tackle this is through its anti-corruption outreach activities, which go under the banner 'Collective Action'. That is, in addition to internal company changes, Siemens also started to engage its external stakeholders in anti-corruption efforts to create fairer market conditions. This began as part of a ground-breaking settlement agreed with the World Bank in 2009, following the firm's acknowledged misconduct and the bank's investigations into corruption in the awarding of contracts to Siemens subsidiaries. The settlement committed Siemens to pay $100 million over 15 years to support anti-corruption work, to co-operate to change industry practices, and to work with the World Bank to fight corruption.

To comply with the settlement, Siemens launched the 'Integrity Initiative', with a budget of $100 million, to support anti-corruption projects. It also took a lead in initiating project-specific and industry-wide compliance pacts to ensure fair bidding on public contracts. For example, Siemens Argentina recently concluded a compliance pact with several competitors in the field of energy transmission. In Brazil, Siemens started to support a project aimed at creating transparency when awarding infrastructure projects connected with the soccer World Cup in 2014 and the Olympic Games in 2016. The company also seeks to increase the compliance awareness of current and future business leaders by conducting business round-table discussions and presentations and developing learning materials for students. It also attempts to inspire its customers and engage in external advocacy around integrity and compliance. In 2018 Siemens launched a 'Compliance Included' online game that encouraged players to become 'compliance champions' across topics including anti-trust, human rights, and anti-corruption.

As a result of these developments, Siemens has been widely recognized as having developed an outstanding ethics and compliance management system. Even so, it remains a work in progress to achieve a corruption-free company, especially when bribery might still be seen by some as necessary to drive business opportunities. As CEO Peter Löscher said at the time of his appointment, instilling an ethical corporate culture 'is a marathon for us, not a sprint'. Indeed, while Löscher is widely credited with turning around the Siemens corruption scandal and pulling the company out of its crisis, concerns over the firm's performance and its failure to meet the CEO's own aggressive growth targets led to his ousting in 2013. 'The clean-up man,' one newspaper ruefully observed, 'was swept aside.'

QUESTIONS

1. What were the main causes of the Siemens corruption scandal? Which, in your opinion, would be the most difficult to resolve?
2. Critically evaluate the initiatives that Siemens has implemented to address bribery problems across its operations. Are these sufficient to tackle the causes of the problems or would you suggest further action?
3. What kind of balance has Siemens struck between values and compliance-based approaches to ethics management? Do you think this is the most effective approach to corruption problems?
4. What is the relationship between corruption and business performance? Can ethics management be organized to achieve business success and high ethical integrity simultaneously, or are they contradictory goals?
5. To what extent is a fine—however high—an adequate response to Siemens' misconduct? Are settlements like that of the World Bank more or less effective in developing cleaner business?

Visit the online resources for web links to useful sources of further information on this Case.

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PART B

Contextualizing Business Ethics

The Corporate Citizen and Its Stakeholders

INTRODUCTION TO PART B

The second part of this book looks in turn at the key individual stakeholder groups faced by the corporation–shareholders, employees, customers, suppliers, competitors, civil society, and government–and addresses business ethics within the specific context represented by each of these groups.

The structure of Chapters 6–11 breaks down into five main parts some of the key themes developed in Part A of the book. So, following the introduction of each chapter there is:

- A brief explanation of how and why this particular constituency can and should be represented as a *stakeholder* for the corporation.
- An overview of the *ethical issues* and problems typically encountered in relation to this particular stakeholder, along with consideration of potential responses and solutions.
- A deepening discussion of those issues and problems in the light of *globalization*.
- An analysis of how these problems and issues can be reframed or responded to from the viewpoint of *corporate citizenship* thinking.
- An examination of the challenges thrown up by notions of *sustainability* in relation to this particular stakeholder group.

As we progress through Part B, we will also continue to raise the question of how theories relating to business ethics can be applied to address the problems faced by corporations, with respect to stakeholder groups. To this end, the 'Think theory' comments and questions utilized in Part A will continue to be posed at relevant points in each chapter.

6

Shareholders and Business Ethics

Having completed this chapter you should be able to:

- Describe the nature of shareholder relations to the corporation.
- Explain the rights and the duties of shareholders in the context of corporate governance.
- Explain differences in corporate governance models and codes in various parts of the world.
- Identify the ethical problems arising from the company–shareholder relationship.
- Evaluate the ethical implications of globalization for company–shareholder relations.
- Critically evaluate the roles of shareholder democracy, shareholder activism, and responsible investment in promoting ethical business behaviour.
- Critically evaluate the role of sustainability indices and alternative forms of ownership in influencing corporations towards sustainability.

Key Concepts

- Corporate governance
- Executive accountability
- Board diversity
- Insider trading
- Cryptocurrency
- Shareholder activism
- Socially responsible investment

INTRODUCTION: REASSESSING THE IMPORTANCE OF SHAREHOLDERS AS STAKEHOLDERS

As we saw in Chapter 2, there are strong voices out there (for instance, Milton Friedman 1970) arguing that corporations exist, and indeed act, solely for the benefit of shareholders. The pursuit of dividends and increases in share prices to satisfy financial markets are major features of the dominant capitalist model of value creation—but have also been widely cited as crucial contributory factors influencing firms to play fast and loose with business ethics. Indeed, as Stout (2016) argues, the corporate focus on only maximizing shareholder value is unnecessary, unworkable, and destructive!

Even if we adhere to dominant views of shareholder dominance, nothing has brought ethical issues more attention than the financial crisis that began in 2007. For instance, between October 2007 and October 2008, shareholders investing in companies traded on the New York Stock Exchange lost on average 40% of their investments (Nanto 2008). As many of the reasons for this crisis have a strong ethical dimension (such as lending practices in the US mortgage industry), business ethics is now a core consideration for some investors, shareholders, and employees-as-shareholders. Other people point to the expansion of socially responsible investment and the emergence of various indices of 'sustainable' stocks to suggest that shareholders are interested in societal good as well as their own self-interest. Whichever way you look at it, the role of shareholders is fundamental to understanding business ethics, and as such they are the first stakeholder group that we will focus on in this second part of the book.

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We first discussed the role of shareholders in the corporation (albeit quite briefly) in Chapter 2 when we introduced the idea that while shareholders have a crucial stake in the corporation, this has to be understood within the context of other stakeholders, such as employees, consumers, and suppliers. In this chapter, we will investigate the finer nuances of this perspective. While maintaining support for a broad stakeholder perspective, we will examine the contention that shareholders, in some way, have a unique and superior claim upon the corporation. This relationship, as we shall see, confers certain crucial rights on shareholders, as well as imposing some quite important responsibilities in terms of the governance and control of corporations. By examining this relationship in some detail, we will provide the all-important context for discussing the various ethical issues that arise in shareholder relations, including insider trading, executive pay, and money laundering.

As we shall explain, both the impetus and the resolution of these issues and problems are shaped by certain national and contextual characteristics of corporate governance. We shall, therefore, go on to look at how shareholder relations vary quite significantly in different regional contexts. This will allow for a deeper understanding of the relationship between globalization and shareholder rights and responsibilities. Such issues have received a growing amount of attention due to the rapid global spread of the financial crisis in the late 2000s. We shall therefore move on to discuss the broader issues surrounding shareholder and stakeholder accountability before finally taking a look at how shareholders can use their unique position to address the question of sustainability of corporations.

SHAREHOLDERS AS STAKEHOLDERS: UNDERSTANDING CORPORATE GOVERNANCE

At the beginning of modern capitalism, and throughout the 19th-century Industrial Revolution, the common pattern of governing companies was a very simple one. At that time, industrialists, such as the Cadburys in the UK and the Thyssens in Germany, both owned and managed their companies directly. Today, except in very small businesses, owner-managers are considerably rarer. Some exceptions to this include David and Charles Koch in the US and Richard Branson and his Virgin conglomerate in the UK. However, the common pattern in large corporations is a separation of ownership and management functions. In fact, this separation is at the heart of modern capitalism: owners no longer have a personal relationship to 'their' corporation, but rather they buy a 'share' in the corporation and expect the managers and employees of the company to run it in their (and other shareholders') interests.

The debate about the separation of ownership and control dates back at least to the 1930s and the landmark publication by Adolph Berle and Gardiner Means (1932). This debate essentially problematizes the notion of ownership when applied to corporations. In our everyday life, to own a bike, or a car, or even a house implies that we are able to do with our property pretty much whatever we like, and therefore can exert a considerable amount of control over it. After all, as we discussed in Chapter 2, the right to property is one of the fundamental rights of citizens. If I want to paint my bike green, ride it down the street, or even completely destroy it, then I can.

However, with regard to the ownership of corporations there are some crucial differences (see Parkinson 1993: 56–63; Monks and Minow 2011):

- **Locus of control**. The control of the owned property no longer lies in the hands of the owner. The actual control lies in the hands of the directors, the board, or another committee. Shareholders thus have, at best, indirect and impersonal control over their 'property'.
- **Fragmented ownership**. There are so many shareholders of a corporation that one individual could hardly consider themselves to be the owner in the same way that the plumber next door owns their own company.
- **Divided functions and interests**. Shareholders have interests that are not necessarily the same as the interests of those who control the company. Shareholders might seek profits, while managers seek growth. Furthermore, a shareholder has no real task and responsibility regarding their property apart from keeping a piece of paper that entitles them to a share in the company.

Given this somewhat modified interface between shareholders and directors of corporations, we can analyse their relationship a bit more closely. Obviously, the primary consideration for shareholders is the protection of their investment that, in the given context, amounts to certain specific rights (**Figure 6.1**).

Most notably, these rights do not include the right to a certain amount of profit or dividend; this is not only subject to the effort and skill of the management but is also—even if the company is profitable—dependent on the decision of the other shareholders in the general meeting. As Fox and Lorsch (2012) argue, shareholders contribute three resources to corporations: money (the provision of capital), information (in the guise of stock market trends and analysis), and discipline (keeping managers in check). Managers, on the other hand, are entrusted with the duty to run the company in the interest of shareholders. This general duty breaks down into various more specific duties (Parkinson 1993: 76–100):

- **Duty to act for the benefit of the company**. This obligation can be interpreted both in terms of short-term financial performance and long-term survival of the company. Principally, it is for the shareholders to decide at which level they want the company to perform; however, managers have a considerable amount of discretion in actually implementing this duty.

Figure 6.1 Shareholder rights

- **Duty of care and skill.** Living up to this duty implies that managers seek to achieve the most professional and effective way of running the company.
- **Duty of diligence.** This last duty is the most general one and, as a rather legally flavoured term, 'refers to the expected level of active engagement in company affairs' (Parkinson 1993: 98). Consequently, this is the broadest way of establishing pressure on managers to invest every possible effort in running the company in the most successful way.

Clearly, the duties of managers are rather broadly defined. After all, one of the main tasks of a manager is to manage the 'property' of shareholders in their interests. This involves so many things that it is hard to pin it down to concrete activities and initiatives: which strategies, which products, which international investment projects will add to the success of the corporation? These questions are already hard to tackle for an insider, let alone for a shareholder who has only a little knowledge about the internal workings of the corporation and the finer specifics of its products, markets, and competitors.

The relationship between shareholders and the company is therefore defined by relatively narrow, but well-defined, *rights for the shareholder* and far-reaching, but rather ill-defined, *duties for managers*, or for the firm in general. It is no wonder that this situation has always been a delicate one and that conflicts continue to plague the relationship between managers and shareholders. Such conflicts focus on the nature of **corporate governance** (Parkinson 1993: 157). Corporate governance includes various rules, processes, and structures that enable shareholders to exercise direction and control over managers. This includes how they can influence goal definition, supervision, control, rewards, and sanctioning of management. In the narrow sense, this just focuses on shareholders and the senior executives of a corporation, but in a broader sense, it also encompasses other stakeholders that might have a legitimate role in directing and controlling managers.

Corporate governance The rules, processes, and structures through which corporations are directed and controlled in the interests of shareholders and other stakeholders.

CORPORATE GOVERNANCE: A PRINCIPAL–AGENT RELATIONSHIP

At first glance, it might seem unlikely that corporate governance should bring up too many ethical issues. After all, shouldn't shareholders and senior executives want the same thing, namely a growing, profitable company? Let us look at some high-profile governance scandals to see just what some of the problems could be:

- Two weeks after taking over as CEO of Japanese electronics company Olympus in October 2011, Michael Woodford discovered that the company had hidden $1.5 billion of investment losses and illegal payments in a so-called 'tobashi' (concealment) scheme. When he exposed the problem he was immediately fired as part of a cover-up by longstanding board members. The scandal wiped out 75% of the stock market valuation of the company.[1] How was it possible that senior management could hide such an amount of losses from shareholders and persist in covering up their past mistakes?
- In 2014, General Motors (GM) faced a lawsuit from its shareholders, alleging securities fraud in the way that the company had handled a recall of 2.5 million cars due to a faulty ignition switch. The company had allegedly known about the problem for more than ten years, resulting in, by some estimates, up to 150 people being killed in accidents. How was it possible that GM could conceal the problem for such a long time from its 'owners', who suffered significant losses when the scandal finally broke in 2014?
- In 2018, British facilities management and construction services company Carillion entered into compulsory liquidation amidst £1.5 billion of accrued debt. Employing over 43,000 employees globally, Carillion was responsible for some of the world's most iconic buildings, such as the UK's Tate Modern and the Yas Viceroy Abu Dhabi Hotel. It also held responsibility for large public sector projects, including the building of hospitals and the management of schools. The collapse of Carillion was seen to be a corporate governance failing. Calls to encourage more transparency in corporate board decisions and to 'toughen' up UK governance codes ensued. How had Carillion managed to continually win valuable government projects in the wake of profit warnings and debts?

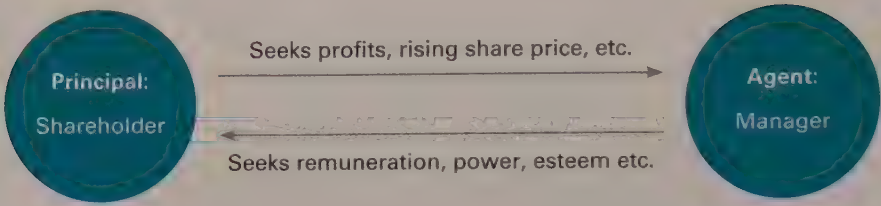
6

THINK THEORY

Think of the duties of managers to their shareholders from the perspective of ethics of duty (Kant's categorical imperative test). Apply this theoretical lens to the three incidents described above.

Visit the online resources for a suggested response.

Figure 6.2 Agency relation between the manager and shareholder



The essential problem here is that firm–shareholder relationships cannot be so easily framed in a contract that neatly states rights and responsibilities. As authors like Jensen and Meckling (1976) have shown, the relationship is a so-called *agency relation*. This means that the shareholder is a *principal* who contracts management as an *agent* to act in their interest within the boundary of the firm. **Figure 6.2** presents a very basic view of the relationship between manager and shareholder using this framework. Firms are much more than just boards, managers, shareholders, and debtholders, but situated within complex political and regulatory environments. This harkens back to our discussion of stakeholder theory in Chapter 2.

Shareholders want the managers in the firm to perform a certain task for them. As a principal, they want managers to do certain things with their property. Managers as agents, on the other side, also have their own interests. Agency relations are special relationships due to two features that are by no means necessarily common for all other manager–stakeholder relations (Shankman 1999):

6

1. There is an inherent *conflict of interest* between shareholders and managers. Shareholders want profits and increases in share price, which require major effort on the part of managers, and may suggest low salaries (i.e. the more managers are paid, the lower the resulting profit for shareholders). Managers want to have high salaries and might pursue power and prestige to the detriment of shareholder value. Consider the fact that acquisitions and mergers in the most competitive financial markets such as the US, UK, and Canada typically provide no additional value to shareholders and in fact often erode shareholder value (Alexandridis, Petmezas, and Travlos 2010).
2. The principal has only limited knowledge and insight into the qualifications, actions, and goals of the agent, something economists refer to as an *informational asymmetry*. The shareholders of Olympus and GM in our examples above might have been happy with the profitability of their companies, yet they only had limited insight into what managers were doing and the risks this created for them.

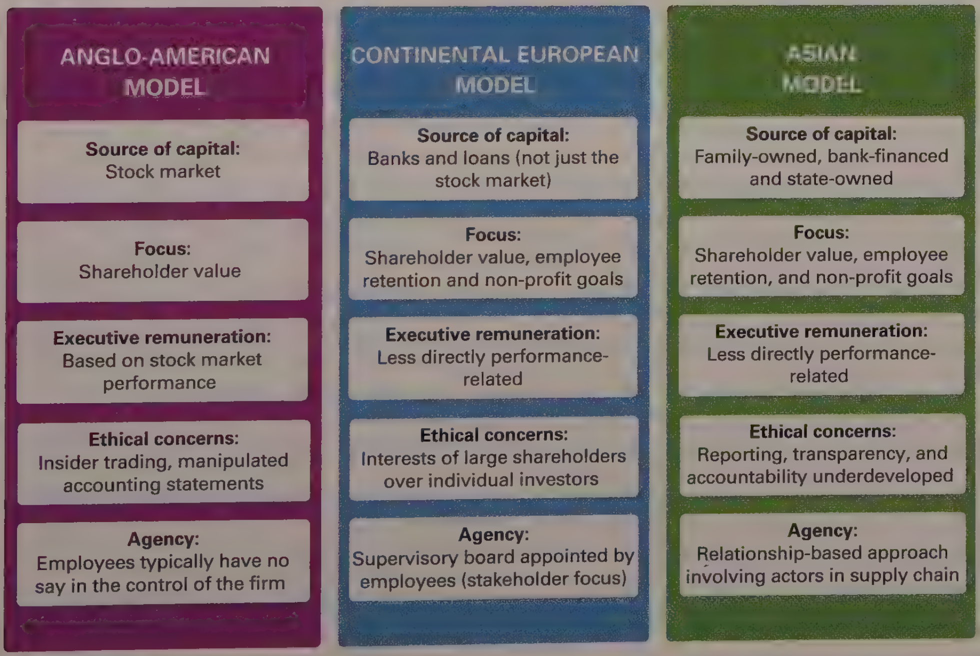
It is the combination of these two characteristics that makes shareholder relations with managers, and the whole issue of corporate governance, so precarious. Indeed, conflicts of interest and informational asymmetry can be seen to underlie a host of ethical problems and dilemmas for either side to deal with in the area of corporate governance, as we shall see in a moment. Before we move on to the main ethical issues pertaining to shareholders, though, we need first to clarify the position of shareholders in relation to other stakeholders. Specifically, it is important to recognize that there are different models of corporate governance in different parts of the world.

DIFFERENT FRAMEWORKS OF CORPORATE GOVERNANCE GLOBALLY

In its broadest sense, corporate governance describes how the priorities of the corporation should be determined and, ultimately, who the company is there to serve. Different models of corporate governance operate in different countries, and so the role of shareholders varies quite significantly between different countries internationally (Aguilera and Jackson 2010). For many commentators there are two broad systems of corporate governance. On the one hand, there is the *Anglo-American* model of capitalism (Aguilera et al. 2006), which is primarily a market-based form of corporate governance. The Anglo-American model is predominantly evidenced in the UK and the US, as well as Australia, Canada, and Ireland. Crucially, the Anglo-American model has also started to influence many emerging economies, particularly in Latin America and Asia (Reed 2002).

On the other hand, there is a *continental European model*, sometimes also called 'Rhenish Capitalism' or 'social capitalism', given its focus on extensive state regulation of market outcomes (Albert 1991). This model is a more network- or relationship-based form of corporate governance, of which the European model is the oldest and most widely known. The continental European model is evident throughout most of the rest of Europe, most notably France, Italy, Germany, Spain, and Scandanavia as the largest economies on the continent. However, a similar approach, based on relationships (rather than markets), can also be found in many countries, in particular in the developing world, and also in Asia (Claessens and Fan 2002), which some refer to as a relationship-based approach to corporate governance (Clarke 2007). **Figure 6.3** provides an overview of the key characteristics of the Anglo-American, continental European, and Asian models.

Figure 6.3 Key characteristics of corporate governance in Anglo-American, continental European, and Asian models



We can also consider differences and similarities from the perspective of corporate governance in different parts of the world. BRIC (Brazil, Russia, India, China) countries tend, in one way or another, to follow what is akin to a relationship-based approach, according to their specific economic and political heritage. In all of these countries, however, we see some degree of a shift towards more market-based mechanisms. An interesting example of how these different trends blend into each other can be found in the Indian approach to corporate governance (Sarkar and Sarkar 2000), which on the one hand is similar to the continental European model (as it is based on large block holdings of majority investors), but on the other hand also demonstrates elements characteristic of the Anglo-American approach (since many of these investors are actually companies and senior executives). This development is particularly encouraged by comparatively large numbers of foreign investors. Similar hybrid forms of governance can be found in many emerging economies, such as Brazil, where it is only in the last few decades that privatization has taken effect and companies have tried to attract more foreign capital and therefore adopted elements of the Anglo-American model (Rabelo and Vasconcelos 2002). The Russian case, furthermore, is interesting in particular for the phenomenon of owner-managers, often referred to as 'oligarchs', who amassed large parts of privatized former state-owned industries in the Boris Yeltsin era of the 1990s. With owners being managers at the same time, considerable conflicts of interest might obviously arise. The Chinese and South Korean contexts offer even more complexity, as ownership is highly concentrated in state-owned family companies, some private enterprises, and, in the South Korean context, in 'chaebols'—large, family-run industrial conglomerates.

Although it is useful to simplify corporate governance frameworks along these lines, it is important to take into account some important qualifications. First, as we have indicated, there are considerable pressures towards **convergence** in governance models, leading to hybrid models and shifts in the form if not always the substance of traditional governance arrangements (Yoshikawa and Rasheed 2009). For example, many of the more relationship-oriented forms of governance appear to be gradually taking on some elements of the Anglo-American model, but these are often resisted or combined with existing approaches, rather than simply replacing them. Especially since the global financial crisis of the late 2000s, the Anglo-American approach has been increasingly brought into question and it is now rarely considered (as it perhaps once was) the 'best model' of corporate governance (Aguilera and Jackson 2010).

Second, there is a considerable level of **heterogeneity**, as different countries characterized as using the same system may actually differ quite considerably. This goes not only for the diverse countries captured by the 'continental European' umbrella, but also, as Aguilera et al. (2006) show, for the ostensibly similar approaches evident in the UK and the US, which actually differ in a number of key respects. Focusing on a firm-level analysis, there may be a number of reasons as to why corporations do not conform to dominant governance logics.

Third, looking at the concept of corporate governance **deviance**, Aguilera, Judge, and Terjesen (2018) suggest that while the national governance context 'sets the stage' for defining normative governance expectations *outside* of the firm, entrepreneurial motivations emanating from *within* the firm see firms improvise their performance through risk-taking, proactive, and innovative behaviour. Aguilera et al.'s (2018) theory helps to articulate why firms underconform (adopt governance practices that fall short of the country's governance standards) or overconform (exceed prevailing governance norms) based on social and/or commercial motives, particularly in different country contexts.

THINK THEORY

Thinking of different corporate governance practices around the world in the context of moral relativism, are these just 'different' (i.e. reflecting different cultural and customary practices) or would you argue that some of them are actually more or less ethical?

Visit the online resources for a suggested response.

ETHICAL ISSUES IN CORPORATE GOVERNANCE

Corporate governance has been a business ethics topic high on the agenda of all major economies in recent years. Partly this has been the result of various scandals that have hit the headlines since the turn of the century. This started with the 'dot-com bubble', and the financial scandals that saw the spectacular bankruptcy of companies such as Enron, Tyco, and WorldCom in the US, and shocking revelations of financial irregularities at Parmalat in Italy and Ahold in the Netherlands, among others. Attention later turned to the collapse of many banks and financial institutions in the financial crisis of 2008 and its aftermath. A swathe of governance scandals in Asia in the 2010s, including at Olympus, Tokyo Electric Power, and Daiwo Paper in Japan, also led to suggestions of 'seemingly free-wheeling behavior—and disregard for corporate governance ... among top management at some of Japan's leading companies' (Tabuchi 2011). More recently, in 2016 and 2017 we have witnessed the calling out of corporations who have offshored profits into tax havens,[2] leading to calls for greater transparency into the financial activities of multinational corporations and how they are controlled. Such phenomena have resulted in unprecedented interest in the ethical dimensions of corporate governance. In the following sections, we will examine the main issues arising here, focusing specifically on those that primarily affect shareholders, namely: executive accountability and control, executive remuneration, ethical aspects of mergers and acquisitions, and diversity on corporate boards.

EXECUTIVE ACCOUNTABILITY AND CONTROL

Looking at corporate governance, there are certain core elements that need to be present in order for the principal–agent relationship to be managed effectively. The most important element is a separate body of people that supervises and controls management on behalf of principals—namely, a board of directors. It is the board to which the chief executive officer is accountable for their performance, and the board that will appoint the CEO and determine their salary. Unless the board has effective oversight and control of senior executives, the principal–agent relationship collapses. Effective corporate governance therefore relies on **executive accountability.**

Executive accountability The systems and processes through which senior executives can be held responsible for the performance of the firm by shareholders and other stakeholders, typically via the board of directors.

In practice, the drive for executive accountability and control tends to result in a dual structure of the board of a publicly owned corporation. On the one hand, there are *executive directors* who are actually responsible for running the corporation as well as supposedly providing a link between managers and shareholders. On the other, there are *non-executive directors* who are supposed to ensure that the corporation is being run in the interests of principals, usually shareholders.

The alternative global governance frameworks have important differences in the way that this board is structured and composed. There are basically two extremes. In the *Anglo-American* and *Asian* models, there is usually a single-tier board that comprises both executive and non-executive directors. In *continental Europe*, however, a two-tier board is more common. The upper tier is composed of non-executive directors and the lower tier of executive directors. The upper tier, often also called a *supervisory board*, effectively oversees the lower tier, which is more concerned with the day-to-day running of the company and includes representatives of stakeholders other than just shareholders, including banks and employees. Perhaps unsurprisingly, therefore, there is considerable variability across countries in the extent to which executives are actually held accountable for the performance of their firms, for example by being fired for poor returns (Crossland and Chen 2013).

Regardless of the structure of the board, the central ethical issue here is clearly the independence of the supervisory, non-executive board members. They will only be able to reasonably act in the principal's interest if they have no directly conflicting interests. In order to achieve this, a number of points are important (see Nader 1984; Boyd 1996):

- Non-executive directors should be largely drawn from outside the corporation.
- They should not have a personal financial interest in the corporation other than the interests of shareholders. This includes the fact that the remuneration for the non-executive director role must not significantly exceed a reasonable compensation for time and other expenses.
- They should be appointed for a limited period in order to prevent them from getting too close to the company.
- They should be competent to judge the business of the company. This would require, and to some degree allow, a limited number of insiders, such as former executives or even works council members (such as in certain parts of Europe).
- They should have sufficient resources to get information or commission research into the corporation.
- They should be appointed independently. This would be either by the shareholders directly in the annual general meeting, or through appointment by the supervisory board.

A further element of supervision comes from an independent auditor who audits the work of the executive board—normally the main aspect of their role—and also of the non-executive board. We will discuss the role of auditors and the ethical issues involved a little later.

Despite the guidelines above, the independence of non-executive directors remains a delicate issue. Often they belong to the same peer group as executive directors, or are themselves in executive roles elsewhere, or have been in such roles in the past. This means that a completely neutral and independent approach will always be quite difficult to achieve (Gordon 2002).

EXECUTIVE REMUNERATION

The financial crisis of the late 2000s brought the issue of executive pay to centre stage in an unprecedented fashion, as executives of bankrupt or failing companies continued to earn millions in salaries and billions in bonuses. 'Shameful' and 'the height of irresponsibility' were US President Obama's comments on what continued to be common practice, not only in the US, but in many other countries across the globe. Public concern about excessive executive salaries has fuelled a rise in online attention to the issue, including a slew of activist websites (e.g. UK-based High Pay Centre), responses in legislation (e.g. the ratio between CEO compensation and the median salary of employees published through the US Dodd–Frank Act requirements), and advisory consultants (e.g. Salary.com in the US and Canada) that seek to promote transparency about current pay levels.

The general trend towards ever-increasing executive salaries has been driven by the dominance of the shareholder value ideology. However, the key element here actually derives from an attempt to address the core of the agency problem: in order to align the interests of both parties, the perfect solution appeared to be to pay executives in the same 'currency' that matters to shareholders, namely dividends and rises in share price. The logical conclusion then is to pay executives in shares—or more commonly, in options that allow executives to buy shares on a future date. In order to make the incentives work, it would not be sufficient to pay them with just a few shares or options but to a degree that substantially impacts on their wealth. As a consequence, the US in particular has led the way in rewarding senior managers with massive stock option deals. This approach of performance-related pay has especially taken hold in the finance industry, resulting in high salaries and bonuses even for mid-level executives in financial services and banking. In 2016 the average CEO salary was $15.6 million; almost 270 times more than the US average salary. Indeed, in the UK, 4 January is labelled as 'Fat Cat Wednesday'; the day when a CEO has already earned more than an average worker earns in an entire year. Meanwhile, the link between executive remuneration and stock market performance has always been somewhat tenuous (Walsh 2008).

Examples such as these unveil many of the ethical problems with executive pay in firm–shareholder relations:

- First, there is the issue of designing appropriate *performance-related pay* in a world of reinvigorated shareholder value (Koslowski 2000). In order to tackle the problem of divergent interests, most executive remuneration packages now contain a significant number of share options to align shareholder and manager interests, but this has resulted in rocketing salary levels and uncertain effects on share prices.
- Secondly, these shifts in remuneration show the influence of *globalization* on executive pay. Since the market for executive talent is a global one, increases in one country tend to drive up pay internationally.
- Thirdly, the *influence of the board* appears to be somewhat limited and often fails to reflect shareholder (or other stakeholder) interests. Why would shareholders want to reward a CEO who had overseen a period of poor performance?

Such problems show few, if any, signs of diminishing. In Europe, the EU Commission began attempts in the mid-2010s to strengthen shareholder rights with regard to executive compensation, while Switzerland even put the topic to an unsuccessful public referendum in 2013

(Dijkhuizen 2014). In the US, reforms to CEO remuneration and increased transparency over CEO-staff salary ratios are being pushed by the Dodd-Frank Wall Street Reform of 2010 and the UK may look to make a similar legislative move. What drives reform here is, of course, not so much the public feeling sorry for shareholders, but the fact that the pay differentials between those at the top and those at the bottom appear to be so inequitable. We shall cover this issue again in Chapter 7 when we address the question of fair pay for employees.

BOARD DIVERSITY

A substantial body of literature has looked at the attributes of successful corporate boards and how these attributes translate to corporate performance (Payne, Benson, and Finegold 2009). Such research argues that companies should work towards **board diversity**: a broad range of skills, backgrounds, age, gender, ethnicity, and sexual orientation represented on the board of directors. Paying attention to such recommendations can reap dividends for contemporary businesses, with research suggesting that increased female board representation can positively influence a firm's financial performance and corporate governance practices due to their knowledge, experience, and values (Post and Byron 2015), leading to improved CSR ratings (Bear, Rahman, and Post 2010). However, in practice, the representation of women on boards remains low in the vast majority of corporate boardrooms. A recent UK study found that just 22% of the companies surveyed had a woman on their board (Turner 2017).[3] Ethnicity figures paint a similarly dismal picture. In 2017, Fortune reported that in the US, just 22% of new board director appointees were African-American, Hispanic or Latino, or Asian-American.[4]

Board diversity A broad range of skills, backgrounds, age, gender, ethnicity, and sexual orientation represented on the board of directors.

While there have been important legislative forays into making boardrooms more diverse in Norway and Spain, most countries prefer to mandate boardroom diversity on a more voluntary basis. This affords firms with the freedom to appoint boards that are in fitting with their own values and aspirations, leading to questions about the fairness of recruitment and selection processes. We will return to this theme in Chapter 7 when we discuss workplace discrimination. Yet the future is not all gloomy. As Dhir (2015) illustrates, Norway's introduction of a quota-based approach to achieving gender balance in corporate boardrooms has spurred substantive corporate governance reform. With women holding over a third of seats on Norwegian stock index companies, such initiatives, which were deemed by many to be controversial, are opening up dialogues around effective methods of corporate governance in the global marketplace. The extent to which these developments create positive implications for other areas of diversity is yet to be seen.

ETHICAL ASPECTS OF MERGERS AND ACQUISITIONS

From a societal point of view, mergers and acquisitions might be encouraged if they involve the transfer of assets to an owner who will use them more productively and thereby create more wealth. The alternative is to leave the assets in the hands of a less-effective management, with higher costs, less innovation, and other costs to society. However, there are a number of ethical issues that might arise, as many examples of unsuccessful mergers demonstrate. The central source of ethical concern in this context is that managers may pursue interests that are not congruent with the shareholders' interests. A study by KPMG of 700 mergers found that only 17% created real value for shareholders, while more than half actually destroyed value (Surowiecki 2008). As a result of such failures, some companies have reversed their decisions and have begun demerging. Consider Hewlett-Packard, which after having spent more than $60 billion in the previous decade on acquisitions, announced in 2014 that it would be splitting its business. More recently, L'Oréal sold UK beauty brand The Body Shop to Brazilian cosmetics company Natura in 2017 in the wake of increasing competition in the market for ethical beauty and cosmetics. The Body Shop takeover shocked many at the time because of the seeming incompatibility between the company's ethical focus and L'Oréal's more mainstream credentials, and recent challenges may suggest that these early critics may prove to have been correct. Basically, the conflict boils down to a desire for power and prestige among senior executives in driving mergers on the one hand, and the interests of shareholders in driving profit and share price on the other.

There is, in particular, a wealth of discussion in the American business ethics literature on this issue, mainly since the US business system strongly encourages these types of transactions—more so than is the case in tightly regulated Europe, or in BRIC countries with more narrowly held stock ownership. However, with an increasing deterritorialization of financial markets, these practices have also become more common across the globe in recent years, as the example of mergers of French, German, or Swedish companies in the telecommunication and utility industries illustrates. In the following, we will look at the main issues that have arisen or are likely to arise.

Next to 'normal' mergers, there are particular ethical problems involved in so-called *hostile takeovers*. Here, an investor (or a group of investors) intends to purchase a majority stake in a corporation (often secretly) against the wishes of its board. Without going into a detailed philosophical debate, there are basically two lines of argument here. On the one side, it could be argued that hostile takeovers are ultimately possible only because shareholders want to sell their stock; otherwise they would keep it. On the other side, an ethical concern may arise with the remaining shareholders that do not want to sell. If the company is taken over by someone who has different ideas about the corporation—for instance, an 'asset stripper' that wants to split the company and sell off certain parts—a hostile takeover might interfere quite significantly with the property rights of those remaining shareholders.

Even relatively friendly acquisitions can create ethical challenges when they are predicated on realizing shareholder value at the expense of other stakeholders. For instance, Jack Welch, the well-known former CEO of General Electric (GE), acquired his nickname 'Neutron Jack' because he turned GE into one of the best-performing conglomerates on Wall Street through the acquisition of all sorts of corporations, and significantly *restructuring* and *downsizing* them immediately after takeover. The buildings and assets remained; only the people had to leave—similar to the effect of a neutron bomb. Very often, acquisitions only target the profitable parts of the bought-up corporation, while at the same time the other parts will be liquidated. Sometimes these acquisitions even focus only on the brand value or certain patents and technologies of the bought-up firm, with the consequence that other stakeholder interests, such as those of employees or local communities, are seriously disregarded.

THE ROLE OF FINANCIAL MARKETS AND INSIDER TRADING

There has been a remarkable silence in the literature on financial markets with regard to ethical issues (Rudolph 1999). A simple justification for this would be that, as long as the rules of the market are set fairly and everyone plays according to these rules, no ethical dilemma is to be expected. Yet behind this argument is the assumption of a perfect market, and in particular the assumption that, ultimately, all publicly available information about the company is reflected by the stock price. However, we all know that this simple rationale of 'the stock market never lies' is only part of the truth. Sometimes, the alleged 'information efficiency' of stock markets is quite flawed, as the following issues show.

Speculative 'faith stocks'

An often-discussed problem is the speculative nature of share prices. This not only became evident in the financial crisis of the late 2000s, but also during one of its predecessors, the burst of the 'dot-com' bubble in the late 1990s. Start-ups that had not made a single cent in profit but were valued at billions of dollars on the Nasdaq in New York or the Neuer Markt in Frankfurt then took this speculative element to an extreme. These stocks were not so much built on solidly calculated profit expectations, but were more like 'faith stocks' (Gordon 2002), built on little more than blind faith. Even a company such as Amazon.com, which is one of the successful survivors of that crisis, needed more than seven years to make even a dollar in profit. Even now, after twenty years in business, it still does not consistently generate profits and regularly reports quarterly losses. Yet its share price rose from \$34 to \$1485 from 2007 to 2018, providing significant returns to its investors.

In some sense, the financial crisis of the late 2000s had similar roots. The complex structured finance products that mortgage lenders and other financial institutions traded to manage the risk of sub-prime mortgages were all based on 'faith' that the real estate market would continue to rise. As long as this faith held, most actors involved thrived. When the downturn set in, however, it not only turned out that the optimism was misplaced, but also that the products were way too complex for the managers involved to foresee the likely consequences. This is an issue we will return to in **Ethics on Screen 6**.

One problem here is that many pensioners, whose funds had invested in these bonds, lost large parts of their income. The ethical issue clearly lies in the fact that, while stock prices always contain an element of speculation, stock markets do not always fully reveal the amount of uncertainty. This might be somewhat trivial for brokers or other stock-market professionals; however, with large institutional investors investing other people's money in these stocks, the fact that these bonds may be based entirely on speculation can be said to be close to an abuse of trust. This also questions the role of analysts and accountants (see section 'The role of financial professionals and market intermediaries') who, among others, are responsible for ensuring *informed* transactions on the stock market.

High-frequency trading

With the rise of electronic trading and an ever-increasing speed of data processing, a new area of ethical concern has arisen around what is often referred to as 'high-frequency trading' (HFT) (Lewis 2014). Brokers using HFT buy financial assets and only hold them for microseconds, to benefit from minimal changes in the value of the assets, before selling them. There are two main problems with this practice (Davis, Kumiega, and Van Vliet 2013). First, depending on the hardware of the company and its cable connection to the electronic stock exchanges, some players in the market have their information microseconds before competitors and thus might be said to have an unfair advantage. The other problem is that all of those trades are executed through electronic algorithms, and since most actors in the market use very similar algorithms, the risk of market crashes is quite substantial. So, for instance, a short but dramatic 'flash crash' of the Dow Jones Index by more than 1,000 points within a few minutes in May 2010 is blamed on such an effect of HFT. It is exacerbated by the fact that HFT only generates substantial benefits when the size of the investment is very high. HFT is currently under scrutiny by many regulators.

Short selling

Short selling, or 'shorting', is the process whereby an investor borrows a security (a financial instrument that holds monetary value) and immediately sells it in the hope of purchasing the security back at a later date at a lower cost. The process is not only risky, but also raises important questions around how ethical it is to profit from the decline of a company; a topical question, given that hedge funds are expected to make around £200 million in short-selling shares in Carillion, the UK outsourcing company that went into liquidation in 2018 (discussed earlier). While such approaches do little to further a longer-term outlook in the financial services sector, some argue that short sellers are not callous individuals who put profit before ethics, but are in fact bastions of the financial markets in ensuring stock liquidity and honest prices for stocks. As we will see now in this chapter's **Ethics on Screen 6**—*The Big Short*—through astute analysis, financial professionals played a pivotal role in predicting the collapse of the US housing market, with monumental consequences. As a result, the practice of short selling remains highly regulated by the International Organization of Securities Commissions (IOSCO).[5]

Insider trading

Insider trading occurs when securities are bought or sold on the basis of material *non-public* information (Moore 1990). Although it therefore shares with HFT a problem of some traders benefiting from an unfair advantage, it is a much longer-standing problem that has been a feature of stock markets for more than a century. The point is that executives of a corporation and other insiders know the company well, and so might easily know about events that are likely to have a significant impact on the company's share price well in advance of other potential traders. Consequently, insiders are privileged over other players in the market in terms of knowledge, a privilege that they could take advantage of to reap a questionable profit.

> **Insider trading** A financial market transaction based on information that is not publicly available to all other market participants.

In the long run, insider trading can undermine investors' trust in the market (Carroll and Buchholtz 2012: 105)—a problem that has led many stock markets to forbid the practice. However, concerns around insider trading persist, and certainly the US courts have pursued insider trading cases with great vigour in recent years. For instance, the high-profile case of hedge fund owner Raj Rajaratnam and former managing director of McKinsey, Rajat Gupta, led to both men

ETHICS ON SCREEN 6 *The Big Short*

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The Big Short *will affirm your deepest cynicism about Wall Street while simultaneously restoring your faith in Hollywood.*

A.O. Scott, *The New York Times*

'A few outsiders saw what no one else could: The whole world economy might collapse.' A killer line from 2015 Hollywood blockbuster *The Big Short* delivered by Jared Vennett (Ryan Gosling); a Deutsche Bank trader who was one of the first to bet against the US subprime-mortgages market. The line not only captures the scale of the financial crisis of 2007–10, but also the essence of this critically acclaimed film in capturing a startling home truth; it was an 'outsider'—hedge fund manager Michael Burry (Christian Bale)—who spotted the fragility of the US housing bubble and subsequently predicted the worst financial crisis since the Great Depression of the 1930s. The film suggests that those in the protected 'inner' circle of banks, real estate agents, and even policy-makers failed to see what was coming.

Based on Michael Lewis' 2010 book *The Big Short: Inside the Doomsday Machine*, the Oscar-nominated drama, which won 'Best Adapted Screenplay', expertly blends laugh-out-loud comedy with depressing truths about the financial crash. A star-studded cast offer eccentric and colourful characters that provide the real source of humour in the film: Michael Burry (Bale) is the awkward genius who comes to work in shorts and without shoes; Mark Baum (Steve Carell) is the rude, opinionated, and outlandish hedge-fund manager who thrives on doom and gloom; and Vennett himself (Gosling) is the astute yet morally questionable narrator of the film, who brings the audience into in-jokes with witty quips and dry comments. In the face of calamity and disaster, Vennett calmly comments, 'there's some shady stuff going down . . .' What's more, poignant cameos bring to life the complex technical backdrop of the story, tackling financial terminology in a light-hearted and accessible way. Margot Robbie of *Wolf of Wall Street* fame, for instance, jocularly explains the sub-prime mortgages while sipping champagne in a bubble bath.

The story begins with Burry (Bale) making a remarkable discovery that the US market is 'propped up by bad loans'. Rather than bringing in the regulators, he decides to create a credit default swap that allows him to short the housing market and in doing so, provide him with a ticket to a life of luxury. His idea is, however, a slow burner, and amidst angry clients and surges in house prices, Vennett (Gosling) and Baum (Carell) discover that Burry's instincts may, in fact, be correct and they decide to also begin betting against the housing market. It is only when two investors learn of these worrying developments that the advice of retired banker Ben Rickert (Brad Pitt) is sought and the moral consequences of Burry's discovery are made known. Profiting from the downfall of the US economy might be legal, but it certainly isn't ethical.

While to some the mélange of truth and humour in this film is enticing, to others the film is superficial, mocks serious issues, and skates over the true cost of unethical decision-making in the finance industry: '*The Big Short* is fatally unsure about whether it is a righteous condemnation of fraud, or a black comic romp with cool amoral dudes and rebellious outsiders' (Bradshaw 2016). In fact, if we look behind the bravado, we see a startling truth about the power of financial institutions, and the individuals within them. This is a story about corporate greed; indeed, even the 'heroes' of this story in the guise of Vennett, Burry, Baum, and Rickert are money-motivated and are set to rake in billions through their decisions to short housing stocks, at the expense of many. These characters reveal the dark side of Wall Street and while *The Big Short* is praised for its factual representation, we are left knowing very little about the catastrophic consequences of economic collapse and those who lost everything as a result of financial risk-taking. It also begs the question: a decade on from the financial crash, has an awful lot changed?

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Visit the online resources for web links to useful sources of information related to this film.

being arrested for insider trading, and to prison sentences of 11 years and two years, respectively. What's more, in 2013 hedge fund SAC Capital pleaded guilty to insider trading charges and was met with a $1.8 billion penalty.

The ethical assessment of insider trading tends to rely on one or more of the four arguments depicted in **Table 6.1**.

THINK THEORY

How do these four arguments correspond to the traditional ethical theories set out in Chapter 3?

Visit the online resources for a suggested response.

Whichever way we look at it, the central problem here seems to lie in the question of where to define the boundaries. After all, every investor tries to receive as much knowledge about a company as possible and analysts of major investment banks would by no means necessarily treat their knowledge as publicly available. A particular problem has arisen from the aforementioned fact that many companies remunerate their executives with stock options or shares.

Table 6.1 Ethical assessment of insider trading

Fairness	Misappropriation of property	Harm to investors and the market	Undermining of fiduciary relationship
There are inequalities in the access to relevant information about companies, leading to a situation where one party has an unfair advantage over the other. Moore (1990) argues that this is the weakest but most common argument that tends to be used against insider trading.	Insider traders use valuable information that is essentially the property of the firm involved, and to which they have no right of access. According to Moore (1990), this has become a common basis for legal cases involving insider trading.	Insider traders might benefit at the cost of 'ordinary' investors. This erodes trust, makes the market riskier, and threatens confidence in financial markets.	The relationships of trust and dependence among shareholders and corporate managers (and employees) are based on managers acting in the interests of shareholders, yet insider trading is fuelled by self-interest. Moore (1990) argues that this is the strongest argument against insider trading.

Source: Moore (1990)

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These people may use their inside knowledge of the company to decide when to exercise their options or sell their shares (and, arguably, it could be irrational to expect them to do otherwise). As a result, such 'acceptable' incentives are difficult to distinguish from 'unacceptable' insider trading. **Ethical Dilemma 6** presents a typical situation where the boundaries of insider trading might be very difficult to clearly draw.

THE ROLE OF FINANCIAL PROFESSIONALS AND MARKET INTERMEDIARIES

One of the main institutions to bridge the asymmetric distribution of information between shareholders and corporate actors is that of financial professionals and market intermediaries. The two single most important types of actors here are *accounting firms* and *credit-rating agencies* (CRAs). The task of these organizations is to provide a 'true and fair view'—as they say in accounting—of a company's financial situation, or a judgement of the trustworthiness of an investment opportunity. While the 'big three' major CRAs (Fitch Ratings, Moody's Investors Service, and Standard & Poor's Financial Services) are a global oligopoly, even across the range of accounting, audit, assurance, and other advisory functions of the main accounting firms, the big four of Deloitte, EY, KPMG, and PwC also have an effective oligopoly, at least in terms of providing audit services to large firms.

With shareholder value orientation becoming more and more popular over the last few years, the nature of the accounting profession has undergone substantial changes (Mellahi and Wood 2002). Rather than certifying the quality of published accounts, today's audits focus a great deal, not only on statements of past periods, but also on the future potential of the corporation. This process, sometimes pejoratively termed 'creative accounting', mirrors the demands of a major group of addressees of corporate statements, namely investors. However, the risk inherent in this process is evident: the discretionary element of auditing existing figures is already quite significant; this is even more the case for projections based on these figures. To take up the expression used above, the ethical challenge for audit firms lies in the fine line between

ETHICAL DILEMMA 6 Who cares whose shares?

It has become something of an institution; spending quiet Sunday afternoons with your partner's family in the countryside away from the hustle and bustle of city life. The fresh air, green scenery, and slower pace of life contrast greatly with the stresses and strains of the working week in London. The contrast seems even more marked since you started working at PharmChemCo (PCC) 18 months ago. You constantly remind yourself that the long hours and big salary are worth it, as are the career opportunities; PCC is one of the biggest pharmaceutical and chemical companies in the world. It has also turned you into quite a successful player in the stock market. Since you were promoted to regional Marketing Director for the North East, PCC has paid a large chunk of your bonuses in stock options. Even with a dipping market, this has proved to be an extremely lucrative package, given your success in meeting sales targets and, of course, shrewd investment decisions.

This particular Sunday, however, city life is taking its toll. Here you are, sat in front of a roaring log fire overlooking the rolling hills, yet the last week in the office is still playing on your mind. A special meeting was called by one of the vice-presidents for all of the senior managers. At the meeting, it was announced that scientists in a leading research lab at a university in the US had discovered some potentially lethal side-effects associated with one of PCC's bestselling herbicides. The report had been confidential to the board of PCC, but an article containing the research was going to be published in *Big Science* magazine on Thursday next week. The purpose of the meeting was to inform everybody and to discuss potential strategies to tackle the problem. Consequently, you were urged to stay absolutely silent about the research findings, particularly as the likelihood was that this would turn out to be a major news story.

Knowing about this makes you uneasy now. For one thing, it is pretty certain that this information will have a major effect on the share price of PCC, as court cases in the US with huge damages are a certainty. Digesting the news in your office after lunch, you had already decided to sell your shares in PCC first thing on Monday—as it is almost certain that the value of your stocks will not be the same in the foreseeable future once this news is out. However, you also worry about the impact the news may have on Julia, your partner's mother, who happens to be an Account Manager for a major investment bank. Not only are you aware that she has invested heavily in PCC shares, she has also advised many of her clients over her years in industry—among them managers of major funds—to invest in PCC.

You are quite unsure about what you should do. You have a good relationship with Julia and often discuss work debates over lunch. You want to give her advance warning of the news and get in her good books, particularly because you know that she will hear the news soon anyway given her large network. But if you tell her now, you are certain that she will sell her own shares (which you really would not mind), but as she is measured by the performance of her advice to her clients, you can be pretty certain that she will also advise her clients to sell. The effect on the share price before the publication of the article could be substantial. Suddenly city life is leaving a bad taste in your mouth and you are torn between staying put and keeping quiet, or making an early getaway back to avoid the inevitable lunchtime discussions. Then again, maybe dropping a small hint wouldn't be too problematic?

QUESTIONS

1. What are the main ethical issues in this case?
2. Who are the main stakeholders here, and how would you compare the relative importance of their stakes?
3. Explain what you would ultimately decide and why.
4. Is there an ethical difference between acting yourself on the information you were given and passing this information on to Julia? Is there an ethical difference between Julia acting on the information for herself and her giving advice to her clients?

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presenting a share as a 'faith stock' or repackaging what one would normally simply call a dud or a 'lemon' (Gordon 2002: 1236).

Issues of a similar nature have occurred with CRAs, which are seen by some experts as one of the main culprits in the financial crisis of the late 2000s (Scalet and Kelly 2012). The primary role of the CRA is to provide a credible assessment of financial products so that investors have a better idea about what a fair price for the product would be and what the risks associated with that product are. From that perspective, CRAs are a pivotal element in the largely deregulated infrastructure of global financial markets. The main question, then, is whether the assessment of the CRA is trustworthy. For many, this is all but proven: since all three of the main CRAs rated the majority of the 'toxic' mortgage-based securities that caused the financial crisis as 'triple A', the best possible rating (Bahena 2009), 'it is beyond argument that ratings agencies did a horrendous job evaluating mortgage-tied securities before the financial crisis hit' (*The Economist* 2013).[6] **Ethics on Screen 6** explored this issue in depth. Even Lehman Brothers had at least an 'A' rating from all three agencies up to the very day before it collapsed (Evans and Salas 2009).

We might summarize the five main problematic aspects of the financial intermediary's job in terms of the market power of intermediaries, conflicts of interest, long-term client relationships, difficulty to maintain oversight and controls over standards of diligence as firms grow in size, and competition between firms (Ballwieser and Clemm 1999). Yet, given the fluid and complex landscape within which many financial intermediaries operate, it is perhaps unsurprising to find that accounting firms and CRAs increasingly find themselves in the ethical spotlight.

THE ETHICS OF PRIVATE EQUITY AND HEDGE FUNDS

The broad ethical concerns we have discussed already around issues of transparency and shareholder control have been exacerbated through the rise of *private equity* (PE) firms and *hedge funds* (HFs). PE firms usually invest money from institutional investors and wealthy individuals to reach a majority stake in a public company. After then taking the company private, PE firms may seek to restructure the firm with the goal of generating more cash and achieving the highest possible value for the company (or the parts of it) when it is refloated (Cumming and Johan 2014). For example, after Burger King was bought by 3G Capital, a Brazilian private equity firm, in 2010, its number of employees was reduced from nearly 40,000 to less than 3,000 in a quest to reverse its financial decline. When 3G took the firm public again in 2012, its stock market valuation grew almost 100% in two years (Leonard 2014).

There are a host of ethical issues raised with PE (see Nielsen 2008). The most general concern is that in most jurisdictions, once the company is taken private, there are no longer many obligations for providing public information about the company. While this entails ethical problems in itself, there are also other concerns around PE funds having a lack of consideration for other stakeholders, most notably employees and earlier investors.

Hedge funds are one specific form of PE firm—initially for investing in complex structured financial products for 'hedging' risks from other investments, but now operating in a diverse array of financial investments. They too have raised a number of specific ethical concerns, most notably around their 'emblematic' opacity (Donaldson 2008). Transparency issues are particularly pronounced with HFs since these highly specialized funds are structured in such a way that they do not have to report to regulators in the same way as other investment firms, and they do not even fully disclose their strategies to their own investors. Despite fairly good returns—and fairy-tale salaries for their managers—HFs have become notorious because of their high risks, unusually low taxes, huge fees for investors, and an obvious potential for misleading potential investors about their performance (Donaldson 2008). It has also been suggested that their lack of transparency has a broader social cost because it hides systemic risk (Donaldson 2008). Some commentators have identified them as playing a key role in bringing about the financial crisis of the late 2000s and criticism ensues regarding the role of hedge funds in restructuring companies at the expense of jobs and employees.

Recent technological developments are raising further ethical dilemmas in the private equity world. For instance, a 2017 McKinsey report marked financial services out as a 'strong digital adopter'; one of the highest sectors for adopting and using artificial intelligence (AI), with spending due to proliferate.[7] While the use of machine learning to inform hedge funds decisions is not new, the recent wave of AI financial investors or 'robo-investors' offer a new level of sophistication to asset management by increasingly automating investment decisions. As Davenport (2017) comments, 'since most financial markets are digital, machines can easily determine which investments perform best. Intuition and personal experience in picking investments count for little,' raising important questions around the commoditization of financial services job roles. It is difficult at this stage to predict what this shift towards automation will mean for corporate governance in a digital world, yet ensuring transparency around the 'digital black boxes' that drive key investment decisions is becoming an area of increased interest.

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INVESTING IN A VIRTUAL WORLD

Digital technologies are not just shaping the role of investment decisions in the finance industry, but also the nature of money itself. In the last couple of years we have witnessed a growth in cryptocurrency; digital currencies, such as bitcoin and Ethereum, which use encryption techniques through secure blockchains to allow transactions between two parties. The technology underpinning these virtual transactions emphasizes the powerful and disruptive nature of the internet and many have heralded the introduction of cryptocurrencies as a 'major financial revolution' that offers cost savings and time efficiencies in investing.[8] Cryptocurrencies are certainly interesting from a governance perspective. Commentators such as Tapscott and Tapscott (2016) have considered cryptocurrency and blockchain technology beyond its economic benefits, to examine the ethical and societal implications of these virtual forms of currency and related issues of honesty, trust, accountability, and transparency. What cryptocurrency means for the finance industry is yet to be determined, yet **Ethics in Action 6.1** weighs up the arguments for and against such currencies and considers what business ethics looks like in an increasingly digital age.

Cryptocurrency Digital currency that uses encryption techniques to verify secure transactions between two parties.

Ethics in Action 6.1 Digital currencies: boom or bust?

'...There's a big industry around bitcoin. People have made fortunes off bitcoin, some have lost money. It is volatile, but people make money off of volatility too...'

—Richard Branson, Source: Bitcoin.com.

In January 2018 the market for digital or virtual currency known as '**cryptocurrency**' was valued at $830 billion USD. From modest beginnings with the launch of bitcoin in 2009 (a currency valued at $190 billion USD at the time of writing), there are now over 1,500 cryptocurrencies in circulation. Cryptocurrencies are also hitting the mainstream with ATMs, brokers, and a wealth of online 'how to' guides[9] elevating the purchase of cryptocurrency from insider 'techies' to your average Joe. Here we evaluate the ethical pros and cons of cryptocurrency and consider what the future might hold for 'digital gold'.

What is cryptocurrency?

Let's first define what we mean by 'cryptocurrency.' It was during the Second World War that cryptography—the art of encrypting information to make it secure—was born. Today, digital or virtual currencies known as cryptocurrencies use cryptography to verify secure transactions between two parties through blockchain ledgers that store all transactions and related information. Anyone can open a 'digital wallet', buy cryptocurrency, and use currencies like bitcoin or Ethereum to pay for products and services; the challenge isn't always putting money in, but more 'cashing out'. A volatile exchange rate, a variety of options for transferring digital value into physical, 'Fiat' currency, and questions around appropriate storage methods mean that cryptocurrency is often seen as a risky investment. Yet, to its main proponents, it is exactly this uncertainty that makes cryptocurrencies so appealing.

Cryptocurrency is the future

It's not easy to ignore the media hype that surrounds cryptocurrency and particularly the 'bitcoin revolution'. The likes of Kodak have seen spikes in share price following announcements that they will be embracing cryptocurrency, and stories of self-made bitcoin millionaires are commonplace.[10] Aside from the hype, the benefits of cryptocurrency broadly fall into three main camps. First, cryptocurrency is more *affordable*. Market commentators see bitcoin, and its rivals, as offering a 'libertarian dream' in disrupting conventional monetary markets (cash, credit cards, and cheques) and smashing government sovereignty and the dominance of the world's financial institutions. Cryptocurrencies are not subject to the same inflationary pressures of government-supported currencies and thus result in potentially lower transaction fees and more cost-effective international exchanges. As Shah (2013) comments, 'Imagine a type of money that is virtually untraceable and untaxable and can be used by anyone anonymously. It's valid in every country, it can buy anything from computer software to books and your account can never be frozen.'

Second, cryptocurrencies are more *secure*. These digital financial assets work on a networked, peer-to-peer structure, and so they are completely decentralized. This means that ownership of a currency such as bitcoin essentially entitles you to a collective agreement from everyone on the bitcoin network that your asset was legitimately created. Cryptocurrencies are thus largely based on trust and shared knowledge, with the complex system of algorithms and cryptography that constitute the blockchain ensuring that the systems surrounding cryptocurrencies are secure. This is appealing to business and governments across the globe. For instance, the US military is experimenting with bitcoin blockchain technology to improve cybersecurity, in an attempt to prevent hacking, ransomware attacks, as well as tampering and cyber hijackings of vehicles, aircraft, or satellites.[11] From a shareholder perspective, Yermack (2017) comments on how cryptocurrencies offer a more passive or partnership form of governance that changes the balance of power from traditional systems and opens up opportunities to encourage more reliable shareholder voting and reduce insider trading.

Third, one of the key upsides of this more affordable and secure currency is that it enables greater *financial inclusion*. Cryptocurrencies do not need physical branches and this new technology can provide greater access to economically deprived individuals and small businesses who wish to borrow money. These benefits are also extended to humanitarian aid. Automation and digitization provide greater transparency, increasing the chance for money to be received where it is needed, reducing the opportunity for fraudulent transactions and corruption. It is even argued that cryptocurrencies and blockchains can bring greater environmental and social benefit in the shape of better supply chain accounting, more accurate quantification of environmental reporting, and even the development of green cryptocurrencies that back investment in green causes. What's the downside, you ask? Let's take a look.

Cryptocurrency is a bubble

Amidst bitcoin price plunges and reports of financial crime in the guise of cryptocurrency theft and fraud, the technological and financial benefit of these digital assets has been called into question. Critics are challenging the 'irrational gold rush' surrounding cryptocurrency and speculative investing, with some commenting that bitcoin is an 'investment bubble'.[12] More specifically, concerns revolve around two issues. First is a question of *regulation*. Given their decentralized nature, cryptocurrencies are unregulated and subject to manipulation. You do not need to disclose your identity to buy and sell cryptocurrencies, and this anonymous culture has led many to equate these digital assets with illegal activity on the dark web, money laundering, and tax evasion. A bitcoin backlash is ensuing, with large banks including Bank of America and JPMorgan Chase announcing in 2018 that they will no longer allow customers to purchase bitcoin with credit cards, due to concerns about credit risk.[13] The Chinese government is also looking to block domestic access to cryptocurrency trading from overseas websites, with South Korea looking like the next country to issue a clampdown on bitcoin.[14]

This all boils down to the second point; cryptocurrencies are *risky*. While the security of the peer-to-peer model favours some, others are concerned that there is no central repository for the likes of bitcoin and Ethereum; a computer crash or loss of data may result in digital holdings being completely wiped out of a blockchain (assuming that no backup exists). What's more, bitcoin virtual wallets are tied to particular address 'hashes' (a random sequences of letters), which can be viewed by anyone who downloads a bitcoin ledger. Transparency thus comes at the cost of privacy, it seems. It is also important to remember that these assets, and the technology sitting behind them, is still rather new, being in existence for just over a decade. Our more established, Fiat models of currency have been around for over a century. There is still more to learn from this virtual marketplace, and there have been calls for better training, information, and awareness raising about both the benefits, and risks, of cryptocurrencies.[15]

A new digital frontier

While cryptocurrencies have benefits including affordability, security, and inclusivity, they are not without risks in this new and unregulated environment. Cryptocurrencies offer much to reflect upon in the context of business ethics and only time will tell if the likes of bitcoin really do make it to the mainstream and shape shareholder behaviour, or remain in the shadows. One thing is for sure: digital currency is here to stay.

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QUESTION

Using the ethical theories presented in Chapter 3, consider the main ethical dilemmas posed by cryptocurrencies. Does your analysis impact your own thoughts about investing in the likes of bitcoin?

Visit the online resources for web links to useful sources of further information.

SHAREHOLDERS AND GLOBALIZATION

Globalization has had a crucial impact on the role of shareholders, the nature of their ownership, and the scope of their activities. With global equity and finance markets being probably the most globalized markets, the consequences of this reformed role for shareholders have become increasingly visible. We might think of shareholders becoming players in the global arena in four different ways:

- Shareholders might become *directly* involved abroad by buying shares of companies in other countries.
- Shareholders might be involved *indirectly* by buying shares in a domestic (or international) company that operates globally by selling goods and services worldwide. This aspect has particular consequences for many European or Asian countries where the capital markets are still very nationally focused.
- Similar to this indirect involvement, but more pronounced, is the role of shareholders in explicitly *multinational corporations* (MNCs). Investing in such companies makes shareholders indirect players in global capital markets, especially if these companies are heavily involved in foreign direct investment activities in other countries.

- Finally, shareholders may become *direct players* in international capital markets by investing in funds that explicitly direct their money to global capital markets. Significant players in this category are the so-called 'sovereign wealth funds' which we will discuss in more detail later.

This differentiation helps us to recognize the particular effects of globalization on the ethical issues confronting firm relationships with shareholders. The first two instances involve stakeholders as actors in certain well-defined national capital markets. The ethical issues of corporate governance, as discussed above, are therefore similarly relevant for these instances. The two latter cases, however, are special since they involve shareholders in the context of global financial markets. We would define these markets along the following lines:

Global financial markets are the total of all physical and virtual (electronic) places where financial titles in the broadest sense (capital, shares, currency, options, etc.) are traded worldwide.

If we just recall our definition of globalization in Chapter 1, global financial markets can perhaps be presently regarded as the most globalized markets since they are the least dependent on a certain territorial basis. The main factors leading to globalization are clearly at play here: *technological* advances mean that, via electronic trading, financial markets today are confined neither to certain locations nor to certain time slots (Parker 1998: 267–72); the key *political* development is the high degree of deregulation of financial markets, which makes it possible to talk about one global market rather than many individual places of financial trade.

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From an ethical point of view, these developments raise some serious issues, among the most important of which are the following:

- **Governance and control.** Global markets raise the problem that no national government is entitled to govern them (Becker and Westbrook 1998). With regard to financial markets, this means that the allocation of a fundamentally important resource for modern industrialized economies takes place without any serious normative rules other than the 'laws' of supply and demand (Koch 2000: 189–209). This might not sound too much of a problem, but such a lack of governance and control becomes immediately clear if we look at the sometimes negative consequences of global financial market transactions. The most recent example of this is certainly the financial crisis of the late 2000s. What initially started in the US very quickly became a global problem for many international banks, since many of the mortgage-based securities were traded globally and assets based on these investments came under pressure all over the world. The spectacular effect of these rapid movements of capital around the globe became most visible in Iceland—a country that initially attracted large numbers of investors in the mid-2000s. When the rapid devaluation of mortgage-based securities occurred (in which many of the Icelandic banks were heavily invested), it caused the country to undergo one of the most severe financial crises ever experienced by a single economy.
- **National security and protectionism.** A specific governance issue has recently arisen with a particular group of investors often referred to as *sovereign wealth funds.* These are government-owned funds of countries that invest their budget surpluses—three-quarters of which comes from oil and gas revenues—in capital markets worldwide. Among the countries with large funds, apart from Norway ($954 billion), none is governed by a

liberal democracy. These include funds held by the United Arab Emirates ($828 billion), Saudi Arabia ($616 billion), Kuwait ($524 billion), and Singapore ($359 billion).[16] What if these funds invest in companies in North America or Europe for motives beyond the simple maximization of their value? This became a subject of debate in the US when a Dubai-based investor was interested in buying a company that—among other things—owned strategic assets such as the ports of New York and New Jersey.

- **International speculation.** Global financial markets encourage speculation. Speculation relates to the act of engaging in a risky financial transaction in the expectation that it will yield substantial benefit. In short, speculation is the art of gambling in the financial markets whereby investors aim to profit from short-term fluctuations in market value. This is not an ethical problem; however, speculative movement of capital may have quite significant impacts on real-life events. For instance, following the financial crisis, fears of debt default took hold in Greece in the noughties, following years of government overspend. It came to light in 2010 that complex financial trading instruments, known as 'credit default swaps' (CDS)—a form of insurance policy designed to protect against defaults of bonds and other debt—had been used by hedge funds and investment banks to cash in on the speculation surrounding the Greek economy. As investors bet on the likelihood that Greece would default on its debt payments, through speculative CDS trading, the country's financial difficulties worsened. This had wider ramifications in Greece, not only in driving down the value of the Euro, but also in introducing significant socio-economic costs, such as loss of income and property. As government officials tried to claw back cents from its citizens in the shape of tax increases and additional austerity measures, there were calls for greater regulation to prevent such market volatility, particularly when Greece failed to make its International Monetary Fund (IMF) loan repayment in 2015. Large asset managers and investment banks, however, remain steadfast in their conviction that CDS offer great opportunities for market liquidity.
- **Unfair competition with developing countries.** While global financial markets are strongly deregulated and thus capital can flow easily in and out of countries, this is not the case for the markets for goods and services (Hauskrecht 1999). This debate has been exacerbated by recent practices of investment firms in food commodity markets. While commodity 'futures' exchanges (agreements on future deliveries at a fixed price to reduce uncertainty in crop growing) were created to mitigate against the risk of fluctuating commodity prices, many still point the finger at speculative trading for raising food commodity prices in 2007–8. Amidst the onslaught of climate change, many argued that such activity placed unnecessary strain on global food stocks and left millions hungry or facing extreme poverty. This raised important questions about the ethics of betting on food prices. More recently, automated trading systems, which further reduce human intervention in futures markets, have grown in influence to now account for over half the volume of futures commodity trades. This means that prices are becoming even more disconnected from forces of supply. With energy, agricultural, and metals futures now generating more than half its net $2.1bn revenue from trading in 2017,[17] Europe has introduced new 'Mifid' (Markets in Financial Instruments Directive) regulations to set tougher limits on the size of positions traders can hold in commodities, to prevent price distortion. This key market reform affords a greater level of transparency to the financial markets.

- **Space for illegal transactions.** As these markets are not fully controlled by national governments, they can easily be used for transactions that would be illegal in most countries. Terrorism, money laundering, international drug trafficking, and the illegal trade of weapons are all substantially aided by global financial markets in their present shape. The problem of tax evasion and fraud through international capital flows to so-called 'tax-havens', such as Luxembourg, the Channel Islands, or the Cayman Islands, has also risen to prominence in recent years. In 2017, for instance, the Paradise Papers exposed the questionable financial activities of multinational organizations and billionaires across the globe. Described as the 'biggest tax scandal of this generation', leaked papers outed the tax dodging tactics of a range of multinational corporations. Whether it be a fictitious offshore company, extortionate tax refunds, or secretive loan schemes, the paradise papers uncovered the complex yet commonplace activities of the rich, famous, and powerful. The scope of such activity is explored in **Ethics on Screen 2** in Chapter 2.

REFORMING CORPORATE GOVERNANCE AROUND THE GLOBE

With the rise of global financial markets and the subsequent spread of Anglo-American forms of more market-oriented corporate governance, we have seen a flurry of attempts to reform this aspect of economic life in most countries in the world. Often these reforms follow corporate scandals, as was the case of the Sarbanes–Oxley Act in the US in 2002 or the Dodd–Frank Act, again in the US, in 2010. These have led to significant changes in the governance practices of corporate America. In contrast to many reforms discussed further in this section, these are mandatory pieces of legislation attempting to reform corporate governance through the improvement of internal controls and external reporting mechanisms—the main focus being the avoidance of criminal misconduct. Given that many European and Asian companies have substantial business activities in the US, both Acts have had palpable knock-on effects on the rest of the world, as well as in the US (Webb 2006; Bafilemba, Mueller, and Lezhnev 2014).

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In Europe and many other parts of the world, probably the main way that reform has been addressed is through the definition and implementation of new corporate governance codes. Codes are defined as 'a set of "best practice" recommendations regarding the behaviour and structure of a firm's board of directors issued to compensate for deficiencies in a country's corporate governance system regarding the protection of shareholders' rights' (Aguilera and Cuervo-Cazurra 2004: 415). The European Corporate Governance Institute lists more than 565 national corporate governance codes, principles, and recommendations that have been introduced since 1998.[18] By October 2016, 92 countries had adopted at least one corporate governance code (European Corporate Governance Institute (ECGI) 2019), yet it is important to note that there is no universal standard. Governance reform has very much spread across the world, including to countries with a relatively small number of listed companies, including Albania, Bosnia and Herzegovina, Croatia, Estonia, Kazakhstan, Malta, Philippines, Qatar, and Yemen. Despite such proliferation, some codes, such as South Africa's 1994 'King Report on Corporate Governance in South Africa' (the 'King Code') and its revisions in 2002 and 2009, have been influential as a template for corporate governance for the entire continent (Andreasson 2011). Subsequently, we have seen the emergence of new governance codes in at least 15 countries on the African continent since 2000.

THINK THEORY

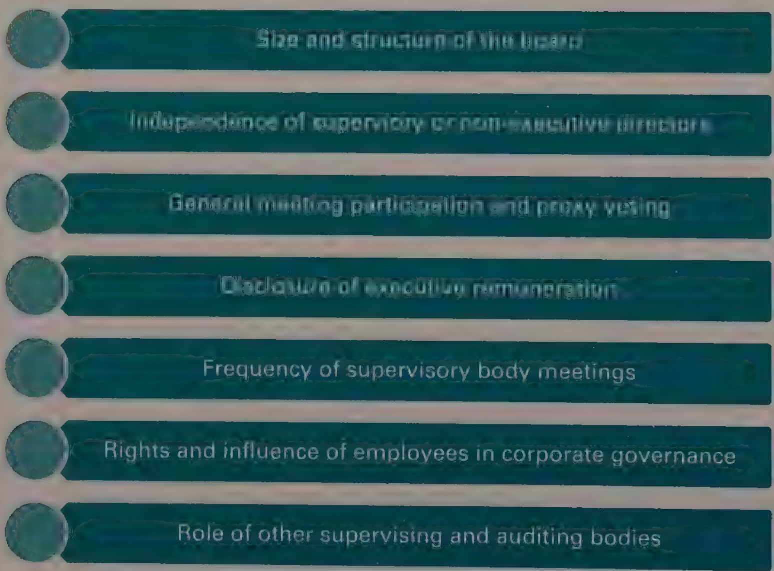
Think about corporate governance codes from the perspective of the intersecting domains of law and ethics introduced in Chapter 1. Can such codes effectively shift ethical issues from the grey area of business ethics into the black-and-white certainties of law?

Visit the online resources for a suggested response.

The idea of codes is to prescribe 'best practice' standards for corporations so as to help ensure that certain minimal standards of corporate behaviour are met. Typical issues dealt with in codes of corporate governance are illustrated in **Figure 6.4**.

The legal basis and the power of these codes vary significantly: while governments and the general public would ideally like to make codes legally binding, industry tends to adopt a more cautious stance. On the one hand, the general implementation and enforcement of codes is desirable. Evidence suggests that countries with effective governance systems and codes in place are attractive sites for foreign investment and economic growth, offering important assurances of legitimacy (Aguilera and Cuervo-Cazurra 2004). Codes also offer useful metrics for managers, investors, and regulators to gauge corporate governance behaviour (Haxhi and Aguilera 2017). On the other hand, extra regulation makes business more inflexible and extends bureaucracy and 'red tape'. In practice, most of these codes have been voluntary, while some have implemented mandatory frameworks for disclosure that follow the 'comply or explain' approach (e.g., the UK Combined Code of 2003) (Aguilera and Cuervo-Cazurra 2009).

Figure 6.4 Corporate governance main issues



Although corporate governance codes are now an established element of most developed economies, their role is still somewhat ambivalent. Codes around the world vary considerably in relation to the extent to which they are enforced (e.g. what is complied with?), the identities and priorities of the issuers (e.g. what is the agenda of the issuer?), and the degree of institutionalization (e.g. to what extent is the code taken for granted?) (Haxhi and Aguilera 2017). In developing countries, for example, the advantages gained by reform towards more market-oriented Anglo-American style governance—such as attracting foreign investment, increasing competitiveness, and reducing corruption—have to be balanced against the threats of 'crowding out' indigenous businesses through the influx of foreign companies and the shift towards a more globally homogeneous, shareholder-oriented governance model (Reed 2002). The World Bank has taken an active role in promoting good and standardized approaches to corporate governance, yet the financial crisis of the late 2000s has raised serious concerns about the viability of the 'tarnished' Anglo-American model of capitalism (Whitley 2009).

ISLAMIC FINANCE

A somewhat different perspective on the role of financial markets is provided by Islamic finance. Islamic finance is concerned with providing financial products and services that are compliant with *sharia* law (Islam's legal system). It therefore seeks to incorporate distinct, faith-based ethical principles into finance, for the purpose of enhancing social welfare (Uppal and Mangla 2014). Specifically, the key differences between Islamic finance and conventional finance are its:

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- prohibition on charging and paying interest (*riba*) in financial transactions;
- prohibition on uncertain and speculative transactions (*gharar*);
- requirement for profit, equity, and risk-sharing in investments;
- prohibition on investment in sinful (*haram*) activities, including pornography, gambling, alcohol;
- requirement for all financial products to be backed by a tangible asset (because money has no value in itself).

These requirements mean that Islamic finance will take a slightly different approach compared to conventional investments. For example, in an Islamic mortgage, a bank would not lend money to an individual to buy a property. Instead, it would buy the property itself and then either sell it to the customer at a higher price, which is paid in instalments, or provide a rent-to-own arrangement to the customer until that person owns the property outright (*The Economist* 2014a). This provides certainty to both parties (there are no variable interest rates involved) and ensures that the lender has an equity stake in the property and shares in the risk in case of default or market fluctuations.

While still representing a somewhat small share of the global financial market, the Islamic banking and finance industry is becoming an important part of global banking. The industry has witnessed double-digit growth over the last decade and is now present in over 60 countries, with its worth forecast to reach $3 billion by 2020.[19] It is heavily concentrated in Iran, with Indonesia, Malaysia, Turkey, and the Gulf States also accounting for substantial proportions of the total market. It has also generated widespread interest in the West, especially in London, which is reportedly the biggest centre of Islamic finance outside the Islamic world. The growth of the global market for 'sukuk'–Islamic bonds that are structured to generate return to investors without infringing Islamic laws against interest (riba)–has also buoyed Islamic finance in recent years. In 2018, for instance, Malaysia hit the headlines by launching the world's first green sukuk bond, valued at $1.25 billion and focused on investment in environmentally friendly projects such as renewable energy. Such initiatives demonstrate the potential for crossover interests between religious and environmentally conscious investors. Western-based banks such as Barclays, Citi, Deutsche Bank, Lloyds, and UBS also all offer Islamic accounts and/or have Islamic banking units and even non-Muslim customers have at times been attracted to Islamic financial services companies.

Islamic finance has received considerable attention in the context of the global financial crisis, and debates about the merits or otherwise of alternative modes of investment. Indeed, Islamic banks demonstrated greater stability during the financial crisis of the late 2000s (Hasan and Dridi 2010) and have been heralded by some as a way of reducing systemic risk and moving towards more 'ethical banking' (El-Din 2014). However, the sector remains controversial. Uppal and Mangla (2014) suggest that many ostensibly sharia-compliant banking practices 'fall far short of the ideals of Islamic finance' and effectively charge interest under another name, while customers are provided 'with an equal or a more risky product and at a higher transaction cost'. Crucially, as with most global financial market practices, Islamic finance lacks a global regulator to rule on whether practices are genuinely compliant. This gives rise to periodic disputes and challenges to the legitimacy of the industry, especially as it grows in size and influence. In 2017, the International Monetary Fund (IMF) issued a report into the financial stability of Islamic banking, finding that while Bahrain and Malaysia had developed robust policy frameworks, major gaps still existed across corporate governance frameworks in various jurisdictions.[20]

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THINK THEORY

Think about the system of Islamic finance from the perspective of non-consequentialist ethics. What advantages and disadvantages do religiously based rules have compared to secular codes of governance?

Visit the online resources for a suggested response.

SHAREHOLDERS AS CITIZENS OF THE CORPORATION

In Chapter 1 we briefly mentioned the fact that globalization weakens national governments, while at the same time MNCs are becoming increasingly powerful. This idea was developed in Chapter 2 with the broader notion of the firm as a *political actor* replacing some of government's role in governing citizenship. We also discussed the growing demand for transparency and accountability to the general public that results from this gradual shift in the role of corporations. In this section, we take up these ideas and explore whether the constituency of shareholders could at least be a starting point to regain some control over corporations. The idea is to show that shareholders have a particularly powerful position from which to hold the company accountable on a variety of issues that involve the governance of citizenship.

SHAREHOLDER DEMOCRACY

The notion of shareholder democracy is a commonly discussed topic in corporate governance (Parkinson 1993: 160–6). The basic idea behind the term is that a shareholder of a company is entitled to have a say in corporate decisions. Analogous to the political realm, shareholder democracy describes a community of people that have an important stake in the company and are therefore able to influence it in some way. In comparison with other stakeholders, shareholders, by means of their property rights, have a legally protected claim on the corporation.

Given the vast number of shares in dispersed ownership forms of governance, the influence of the single shareholder is rather small; however, with institutional investors, or other large shareholders, the situation looks considerably different. For example, in the 2010s, activist investors contributed to the ousting of two successive CEOs at Yahoo, as well as Steve Ballmer as the CEO of Microsoft, among other high-profile casualties. Both firms subsequently saw their stock rise, giving shareholders a sizeable payoff for their trouble (*The Economist* 2014b). Nevertheless, the actual ways of influencing the board of the corporation and the institutions of proxy differ across the globe. Furthermore, since the crucial occasion where shareholders vote is the annual meeting, their power is mainly focused retrospectively. They may or may not approve of the company's activities during the last year, whereas their influence on *future* plans is somewhat limited. This is because, in most cases, management will be reluctant to publish too much about their plans in advance.

Clearly, though, these limitations and qualifications do not exclude corporations from being *accountable* to their shareholders. You may remember that we suggested in Chapter 2 that corporate accountability 'refers to whether a corporation is answerable in some way for the consequences of its actions'. Corporations and their managers are then (at least in principle) answerable to their shareholders, mainly through the annual general meeting (AGM), but also through the shareholders' representatives on the board of directors. In empowering shareholders to exert power over the corporation, a crucial role also falls to the annual report and quarterly guidance given to investors. These are the main vehicles through which shareholders learn about 'their' company, and are the main resources they have by which to make decisions regarding how they will vote at AGMs.

Now this is all well and good, and our discussion would probably end there if our interest was just in corporations being accountable for their financial performance. However, our concern is more with whether shareholders can be a force for wider *social* accountability and performance. For this, we need to consider the scope of activities (what is in and what is out of scope?), adequate information (can informed decisions be made?), and mechanisms for change (how can attention be drawn to key issues?). In relation to this latter issue, in situations characterized by a division of ownership and control, the role of shareholders broadly falls into two categories: *shareholder activism* and *socially responsible investment* (SRI) (Sparkes 2001). In the following, we will look at both approaches to supposedly 'ethical' shareholding, an overview of which is provided in **Table 6.2**.

SHAREHOLDER ACTIVISM

Normally, investors exercise their rights to speak at the AGM and engage with management to encourage firms to address issues of financial performance and other typical shareholder concerns. However, these rights also open up the opportunity to voice concerns about social,

Table 6.2 Two approaches to 'ethical' shareholding

Shareholder activism	Socially responsible investment
Single-issue focus	Multiple-issue focus
Active role in corporate governance	Passive role in corporate governance
Seeks engagement with management	Avoids engagement with management
Seeks publicity	Avoids publicity

Source: Derived from Sparkes, R. 2001. Ethical investment: whose ethics, whose investment? *Business Ethics: A European Review*, 10 (3): 194–205

ethical, and environmental issues, and in particular, governance considerations such as executive pay, as discussed earlier. Some activist investors will do this behind closed doors through direct engagement with senior leaders of the company, while others may look to get broad media attention for these issues by 'disrupting' the AGM from its usual course of action. In this situation, what we typically have is a stakeholder group (such as an NGO) that adopts the role of a shareholder, but does so in a way that potentially provides it with greater leverage. These activities are typically referred to as **shareholder activism**.

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Shareholder activism The attempt to use shareholder rights to actively change the practices and policies of a corporation.

Shareholder activism has been taking place for decades, most notably in the US, where shareholder resolutions have addressed a range of social issues over the years, including product safety, labour issues, and climate change (Goranova and Ryan 2014; O'Rourke 2003). In 2016, US shareholder resolutions in issues of social responsibility equated to $2.56 trillion, representing a 33% increase on 2014 figures.[21] In many other countries, however, it can be quite difficult to raise issues at the AGM, since this would need the involvement of larger institutional investors (Taylor 2000: 174). However, there are examples of shareholder activism in other parts of the globe in more recent years. For example, in 2014 protestors from the 'Boycott Divestment Sanctions South Africa' group bought shares in popular South African high street retailer Woolworths in order to put pressure on management to stop sourcing products from Israel in the face of conflict in the Middle East. Embedded in larger campaigns, direct engagement with managers, the filing of shareholder resolutions, talking at annual meetings, or even filing law suits as a shareholder can be very effective ways of making corporations change their behaviour—or at least of informing a broader range of constituencies (especially other shareholders) about critical ethical issues.

On the downside, in buying shares of a corporation, the particular shareholder group gets involved with 'the enemy' and in the long run there might be certain integrity problems. Furthermore, for activists, shareholder resolutions are costly and resource intensive, and can impact negatively upon their other campaign tactics (O'Rourke 2003).

SOCIALLY RESPONSIBLE INVESTMENT

The second main mechanism, **socially responsible investment** (SRI, or also known as 'responsible investment' or 'ethical investment'), is further removed from the corporation and certainly less active than confronting managers head-on at AGMs. Over the past decades a large and rapidly growing body of shareholders has emerged who specifically include environmental, social, and governance (ESG) concerns (as they are known in the investment community) in their investment decisions. In many respects, the US is the leading country here, with $8.72 trillion in SRI, which equates to roughly one out of every five dollars under professional management in the US.[22] Leading SRI criteria includes (in order of influence) board issues, pollutions/toxics, human rights, and climate change, suggesting that governance issues are still a focus area for SRIs. The most recent development in the SRI world, however, is the growing interest among investors in emerging markets. Here, issues such as climate change, deforestation, and relations with indigenous people, among others, have been increasingly seen as material to investment decisions.

Socially responsible investment (SRI) An investment decision that combines the search for financial returns with the achievement of social, ethical, and environmental goals.

In contrast to shareholder activism, socially responsible investors do not directly use their investment to make companies listen to their concerns and subsequently change their behaviour. Rather, they look for a profitable investment that, at the same time, complies with certain non-financial criteria or goals. These criteria can either be negative or positive, i.e. investors can choose to exclude certain companies with undesired features from their investments (negative screening) or actively include companies with certain desired features (positive screening). **Figure 6.5** provides an overview of the most common issues for both types of criteria.

6

THINK THEORY

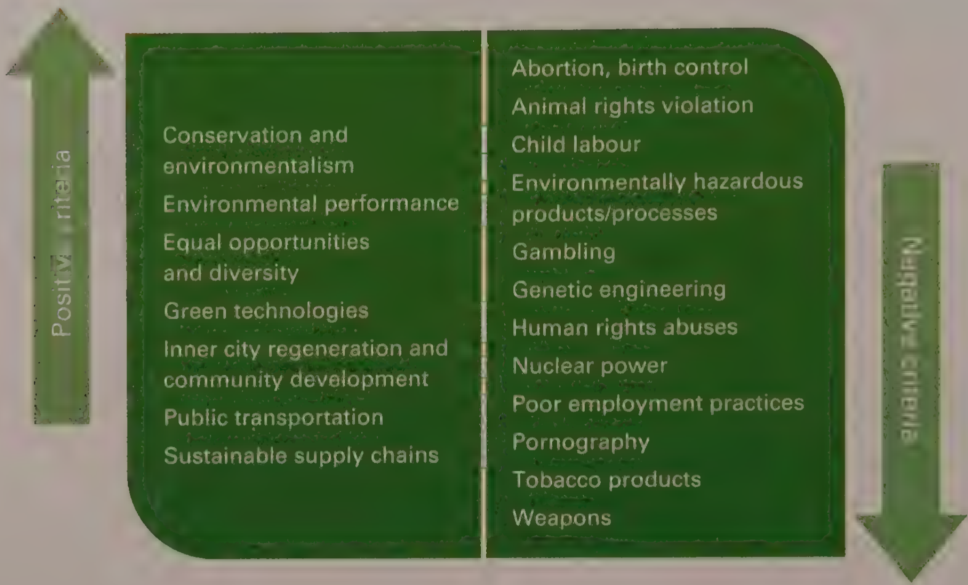
How could the ethical theories set out in Chapter 3 help an investment fund manager to determine positive and negative criteria? Take an example from Table 6.2 and make your case by using one or more normative ethical theories.

Visit the online resources for a suggested response.

Among SRI funds there are two broad types (Mackenzie 1998). *Market-led funds* are funds that choose the companies to invest in following the indication of the market. These gather data about the social and ethical performance of corporations from various research agencies. Among the most reputed institutions here is the London-based Ethical Investment Research Service (Vigeo Eiris), which provides regular research on over 3,000 companies against various criteria, organized into six clusters—environment, human rights, human resources, community involvement, business behaviour, and corporate governance (www.eiris.org).

In contrast to market-led funds, *deliberative funds* base their portfolio decisions on their own ethical criteria. This involves more research and forces the fund's management to regularly assess companies and practices. The difference in practice is that deliberative funds provide

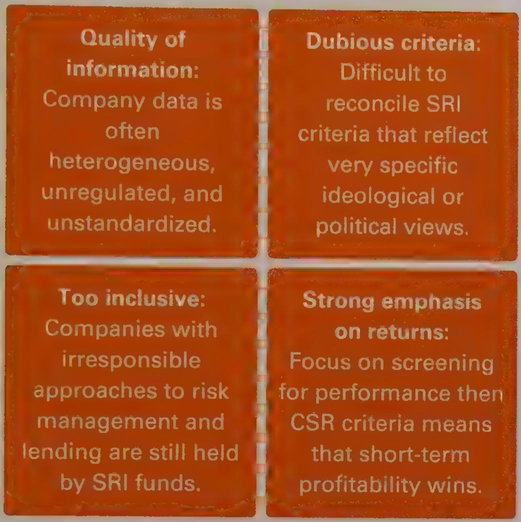
Figure 6.5 Examples of positive and negative criteria for socially responsible investment



investors with detailed ethical criteria, whereas market-based funds just provide a list of companies regarded as ethical by the market.

In practice, the choice of the right criteria and companies is not always clear-cut (Cowton 1999; Sparkes 2001; Entine 2003). So, for instance, many electronics companies may well produce components for household appliances as well as military technology. Some investors would also object to investing in bank stocks because banks fund industries across the board, including probably a number of companies that do not comply with the ethical norms of investors. These processes involve fund management in constant updating of their criteria and company research, encouraging a more flexible and less bureaucratic approach over time (Cowton 1999). However, by and large, SRI is a striking example of what we referred to at the beginning of this section as 'shareholder democracy'. By allocating their investment to corporations that comply with certain ethical standards, investors not only have some influence on the company's policy, but they also set incentives for other companies to review their policies. That is, analysts and investment firms even beyond the SRI niche increasingly question companies on their ESG performance. An example of this 'mainstreaming' is the growing number of efforts by banks and other large investors to include ESG criteria in investment decisions regarding large infrastructure projects, such as dams and pipelines in the developing world (Goff 2006). Examples include the 'Sustainability Framework' of the International Finance Corporation (the private sector arm of the World Bank) and the 'Equator Principles', a set of guidelines for commercial banks.[23]

Figure 6.6 The main concerns for the SRI movement



Source: Vogel (2005: 37–8)

While evidence suggests that SRI screens do indeed help investors to reduce their risk (Lee et al. 2010) and numerous examples point to companies responding to demands from their investors, there is little clear evidence that overall ESG performance improves as a result of SRI (Wagemans, Koppen, and Mol 2013). This is because the percentage of SRI compared to conventional investment is tiny, and SRI funds rarely co-operate to influence companies, so they have little real leverage (Wagemans, Koppen, and Mol 2013). Also, as Peter Frankental (2006) from Amnesty International argues, in practice fund managers are still predominantly concerned with financial performance rather than ESG issues. It is only when an ESG issue, such as human rights, provides a reputational threat that companies are willing to change their practices. More systematically, the main concerns regarding the contemporary SRI movement are summarized in **Figure 6.6**.

Yet, in addition to the normative motivations for SRI, some commentators (and indeed investors) have also argued that making decisions according to ethical criteria does make sense from an economic perspective. The risks of public boycott of products, or environmental impacts, can influence the performance of shares, making 'ethical' companies potentially less risky investments. In a similar vein, the potential market success of ethical products might make a socially responsible investment into a very profitable one. Just a glance at Ethisphere's 2018 Most Ethical Companies List, which includes the likes of Microsoft, Starbucks, and General Electric, shows that ethics pays.[24] In **Practitioner Spotlight 6** we hear from the Head of Responsible Investment Solutions at Columbia Threadneedle Investments around the skills needed to drive SRI, as well as the positive impact SRI is having within financial markets, and beyond.

PRACTITIONER SPOTLIGHT 6 Accelerating responsible investment

An increased focus on environmental, social, and governance (ESG) concerns in the finance industry is demanding more responsible investment practices. However, exactly what is responsible investment and how is it managed? **Gareth Davies, Head of Responsible Investment Solutions at Columbia Threadneedle Investments,** gives us his unique insight.

Can you broadly describe your current job role? I am responsible for the commercial strategy of our global Responsible Investment business. I work closely with our product, marketing, sales, and investment teams to set out a clear strategy for growing our responsible investment assets across the globe. I also work very closely with our clients to help create investment solutions that meet their financial and non-financial objectives. We, as a firm, have a long history of doing this and currently manage over $30bn USD in responsible investment assets (out of $482bn Asset under Management, as at 30 June 2018) for a range of clients including large pension plans, insurance companies, wealth managers, and individuals.

How did you become involved in responsible investing? I first became involved with responsible investment when I was in a different role at the company, co-ordinating our global private banking client relationships. In meeting with senior private banking leaders, I saw a clear interest in impact investing and ESG, and so I helped launch the UK Social Bond Fund in 2013. This offers retail investors an opportunity to invest their savings to make money while also providing financial capital for social or sustainable projects. Once launched, I became a champion for the fund internally and externally—something I enjoyed very much because the investment strategy was completely different to anything we had done before and certainly anything the market had seen before. We now have two other funds of the same approach in Europe and in the US. Our offering in social investment is growing across the world, which is very exciting to see.

What does your average day look like? A typical day will have several different tasks and meetings spread over various locations, given that we are a global business operating in 18 different countries. I speak daily to members of our sales team, as well as to members of the investment teams, but I can also be in a meeting with the product development team about a new product idea in the morning and a discussion with a journalist, client, or industry peer in the afternoon. My days are varied, which I enjoy, but you must be able to juggle lots of competing tasks and switch between them throughout the course of the day.

What key skills are needed in your role? First, you must have a genuine belief that investing in well-run companies that are well positioned in terms of sustainability is a sound approach to managing money because that is what drives and motivates you to make the case to clients. Second, it is essential to relate to people; understanding a client's objectives and perspectives helps to focus discussions on a solution that meets their needs. Third, an ability to take complex concepts or methods and put them into clear, consistent, and simple statements is key. It is very easy to make something simple sound complicated, but it is a real challenge to make something complicated sound simple.

What are the key benefits and challenges of your role from an ethical perspective? Responsible investing is an area that is gaining a tremendous amount of attention across the world and this will only continue, if not accelerate, in the years to come. It is very nice to be in a role that is so clearly aligned with the future trajectory of the finance industry and to be a recognized authority. The downside to the rapid growth in the industry is that many new and different flavours of responsible investment are emerging. I have to spend a significant amount of time reading the news and relevant reports to keep track of industry developments and competitor and client activity. It is absolutely critical to have your finger on the pulse.

If you could change one big world issue, what would it be? Financial exclusion. It is a real problem that over 2 billion people worldwide do not have access to basic banking services and while much of the 'unbanked' live in the developing world, we in the UK still have a million people without a bank account. Tackling financial exclusion will drastically improve lives and economies.

SOURCE

http://www.columbiathreadneedle.com.

Visit the online resources for more Practitioner Spotlight interviews.

6

SHAREHOLDING FOR SUSTAINABILITY

With shareholders having the potential to use their power and ownership rights to encourage companies to live up to their role as corporate citizens, they might be said to contribute to one of the major goals of business ethics: the triple bottom line of environmental, economic, and social sustainability. In this last section, we will look at two selected aspects where shareholders become directly involved in contributing to sustainable corporate behaviour. The first area is closely linked to our discussion in the previous section and looks to shareholders aligning their investment decisions to the criterion of sustainability. While this first approach uses the market to achieve sustainability, the second approach focuses on corporate structure and will look at alternative ways of linking ownership, work, and community involvement.

SUSTAINABILITY INDICES

Since the late 1990s there have been several attempts to construct share indices that rate corporations according to their performance towards the broader goal of sustainability. The more long-standing tradition emerges from the US, where the Dow Jones Sustainability Indices (DJSI) have become the leading family of indices, in this respect, since their inception in 1999 (Knoepfel 2001; Cerin and Dobers 2001a, 2001b; Barkawi 2002). Subsequent developments in Europe led to the launch, in October 2001, of the 'FTSE4Good' in London. This includes a family of indices that embrace companies that meet certain social, environmental, and ethical standards (Oulton 2006).

Since 1990, we have witnessed the launch of numerous other indices, many of which either compete head-on with DJSI and FTSE4Good (such as the MSCI and STOXX sustainability indices) or focus on particular country markets or different investor interests (Louche and Lydenberg

2006). For example, countries as diverse as Canada, Egypt, Mexico, Taiwan, Switzerland, and South Africa all now have sustainability indices tailored to companies and ESG issues relevant to their specific contexts. In addition, particular sectors have their own sustainability indices to rank member companies in terms of their ESG performance; one prominent group of these are 'Cleantech Indices', which specifically include companies employing clean, environmentally friendly technology solutions.

The DJSI continues to be the most well-known sustainability index. It follows a 'best-in-class approach', comprising those companies identified as the sustainability leaders in each industry. Companies are assessed in line with general and industry-specific criteria, which means that they are compared against their peers and ranked accordingly. The companies accepted into the index are assessed according to 'financially relevant economic, environmental, and social factors that are relevant to the companies' financial success, but that are under-researched in conventional financial analysis'.[25] The data that form the basis for the judgements are based on questionnaires, submitted documentation, corporate policies, and reports, combined with a 'media and stakeholder analysis', which monitors publicly available information 'to identify companies' involvement and response to environmental, economic and social crisis situations that may have a damaging effect on their reputation and core business'.

The DJSI is now, in fact, a family of indices that focus on different markets and regions, including specific indices for emerging markets and the Asia-Pacific region as well as Europe and North America. Its flagship, Dow Jones Sustainability World Index, however, seeks to identify industry leaders in sustainability across the globe. In 2017 it comprised the top 10% of the best social and environmental performers among the world's largest 2,500 companies. Since its inception, the DJSI has slightly outperformed the mainstream Dow Jones Index, although it should be noted that financial robustness also forms an important part of the DJSI. The index remains largely Western focused, with companies in the US, Germany, and the UK dominating the rankings, although the 2017 index awarded Thai Oil Plc (Thailand) and LG Electronics Inc (Republic of Korea) best in class for the energy and consumer durables and apparel sectors, respectively.

There are, however, a number of criticisms of the index, some of which focus on the technicalities of the index and some of which concentrate on the ethical credentials of the companies chosen. First, the biggest criticism is that the data on which a company is accepted into the index depends largely on data provided by the corporation itself. The second relates to questionable criteria used by the index. Some critics have asked how it could be that corporations with massive ethical credibility problems, such as large oil companies, are included in the index. Finally, the sustainability assessment focuses mainly on management processes rather than on the actual sustainability of the company or its products.

Overall, then, the DJSI has to be regarded as an important step in linking investors' interests in financial performance with the broader goal of sustainability. However, the development towards sustainable investment ratings is still relatively recent and the emergence of competing indices for different investor needs suggests progress towards more sophisticated investment tools over time. Nonetheless, while criticisms that it is simply a case of 'greenwashing', without connecting to any substantial performance implications, are probably a little overwrought, developments such as the DJSI are never likely to be sufficient to encourage firms towards fully sustainable practice. Indeed, another rather more fundamental way of addressing sustainability from the perspective of shareholders is to completely rethink the whole notion of corporate ownership.

RETHINKING SUSTAINABLE CORPORATE OWNERSHIP: ALTERNATIVE MODELS OF OWNERSHIP

For some advocates of sustainability thinking, one of the crucial limitations of corporations that are effectively 'owned' by shareholders is that, whatever their attention to other stakeholders, the ownership model simply precludes an entirely just allocation of rewards. **Case 6** provides an overview of how, in one 'industry', different forms of ownership can have a massive impact on the success of organizations. In passing, we have already discussed some alternative forms of ownership of corporations, but below we elaborate on four alternatives: state-owned firms, family-owned firms, co-operatives, and social purpose corporations.

- **State-owned firms:** Although privatization has brought sectors including postal and telecommunication services, utilities, or healthcare into private hands, in the aftermath of the financial crisis of the late 2000s, government ownership has resurfaced again in a number of countries, in particular in the banking and automotive industries. In some respects, the 'bailout' of banks and car companies by governments was due to the fact that a potential failure of these companies would hurt too many other stakeholders beyond shareholders, in particular employees, suppliers, and local communities. State ownership still thrives in France and Germany, where governments still own, for instance, controlling stakes in Renault and Volkswagen; not to mention countries such as China, where the 'state-owned enterprise' (SOE) is still the dominant pattern of economic organization.
- **Family-owned firms:** Another alternative ownership model, of course, is *family ownership*. The main feature of this approach, from an ethical perspective, would be that families often have longer-term goals for their companies rather than short-term profit maximization. While it is not a given that families will automatically show more concern for other stakeholders, many family-owned companies have shown quite a significant commitment to philanthropy and social responsibility, such as the Tata Group in India, which has been majority owned by members of the Tata family since 1868 (Elankumaran et al. 2005). And, as we see in **Ethics in Action 6.2**, Canadian portfolio business George Weston Limited is a family business that prides itself on values-led governance.
- **Co-operatives:** A common hybrid form of ownership is the co-operative model.[26] These are businesses that are owned neither by investors nor by their managers, but which are owned and democratically controlled by their workers or their customers. In 2016, turnover among the 300 top global co-operatives was reported as $2.53 trillion, with further growth expected as many turn to look for alternative systems of capital financing and ownership in the wake of financial crisis.[27] Co-operatives are not, however, immune to some of the ethical issues we have raised in this chapter, as the financial, cultural, and leadership issues faced by the UK Co-operative Group demonstrate.[28]
- **Social purpose corporations:** While many businesses look to combine profit and purpose through their CSR or sustainability practices, social purpose corporations have social goals written into their articles of incorporation. To date, companies choosing to incorporate as social purpose corporations have tended to be small and medium-sized firms, explicitly founded to advance a social purpose. Many countries have also introduced new legal forms into their corporate law in order to accommodate the rise of social purpose corporations, such as the UK's 'Community Interest Company', the 'Community Contribution

6

Ethics in Action [illegible] Family firms and 'patient capital': thinking in decades, not quarters

Extracts from Galen G. Weston (2016), CEO of George Weston Limited, published in Re-imagining Capitalism *(eds Barton, Horváth, Kipping), Oxford University Press.*

'Reimagining Capitalism'

Family firms are the most prevalent corporate structure across the globe (La Porta, Lopez-de-Silanes, and Shleifer 1999). McKinsey & Company found that they represent one-third of the S&P 500 and 40% of the 250 largest companies in France and Germany (Casper, Dias, and Elstrodt 2010). Here in Canada, publicly traded family firms outperformed the benchmark TSX index by 25% between 1998 and 2013 (Spizzirri and Fullbrook 2013).

Across eras and geographies, family firms are prevalent, influential, and successful. In this respect, some suggest their stories are also understudied. Some of Canada's leading companies are owned and managed by generations of families: one of the nation's largest financial services firm, Power Financial Corporation; one of its best-known food companies, McCain Foods; and a world-class media company, Thomson Reuters; to name only a few. Our own company, George Weston Limited, offers one example, as an organization whose holdings include Loblaw Companies Limited and Weston Foods. It is more than 130 years old and among Canada's largest companies on various measures. As executive chairman, my father represents the third generation of family leadership. As deputy chairman, I am the fourth.

According to the Family Business Institute, research suggests our company had just a one-in-ten chance of making it to my father's generation with family ownership intact (Fernández-Aráoz, Iqbal, and Ritter 2015). This reminds us that most family firms do not survive. This chapter offers my observations on successful family firms, and the suggestion that those that do survive and thrive likely hold similar characteristics—grouped nicely under the notion of 'patient capital.' I would argue that these traits are common among highly successful companies, family owned or otherwise, but that they are greatly enabled by family control.

Four Traits of 'Patient Capital' in Family Firms

Among other measures, the success of companies can be charted on the basis of value creation over time. In the case of family firms that time is often defined as decades and generations, rather than the quarter-by-quarter growth of more meteoric success stories that may also create value, but which lack longevity. Similarly, for my family, retention of control is another important measure. If you support this view of longevity and control as complementary to value creation in measuring success, there is no question that family firms reap the benefits of 'patient capital'—a concept which has been well defined by various scholars. Sirmon and Hitt (2003: 343), for example, call it 'financial capital that is invested without the threat of liquidation for long periods.'

By creating value over decades and generations, rather than quarters and years, successful family firms outperform those seeking short-term shareholder returns. This manifests itself in four characteristics:

(i) A predisposition for capital preservation and risk management over time—Successful family firms are predisposed to understanding the tradeoff between the short-term acceleration and the long-term accumulation of value. While every company will claim they are strategic, not all can claim they have the patience of a family firm.

(ii) A reliance on company values and related people strategies—We subscribe to a concept that Brown Forman, maker of spirits such as Jack Daniels, calls 'planned nepotism' (Bellow 2003: 489). We do not seek professionals to run our family business; we use our business to develop professionals within our family.

(iii) An ability to buck conventional thinking—Family firms can make transformative decisions with a more balanced concern for their short-term impact, focusing instead on their long-term relevance. We scrutinize our business model every five years and truth-test our strategy annually to either confirm it or initiate change. Then, we can set and pursue our direction with focus and conviction.

(iv) An appreciation for long-term social, demographic, and environmental trends—Successful family firms are particularly attuned to long-term trends. In some respects, this might suggest a humanist or environmentalist take on patient capital, but from a capitalist perspective this trend watching ensures that a business either profits from or perseveres through the developments that make the world a better or worse place.

A Note of Caution: Avoiding Common Pitfalls

For family firms, patient capital and the four related characteristics I have presented here are no panacea. They do not replace solid and consistent business management. Nor do they automatically bridge the many challenges common to family firms. Early in this chapter, I listed three out of dozens of potential risks: complacency, internal strife, and intergenerational succession. In the wrong combination or degree, otherwise positive traits—like a long view of investments and trends, or a preoccupation with values and legacy—can actually create complacency and inaction. Our family has buffered against that risk with a commitment to articulating clear five-year strategies, stress-tested annually. Similarly, we have held ourselves to account with a public float and independent board. And, less tangibly but equally importantly, we have fostered the family tradition of hard work, hired leaders who enhance our values, and made it a defining feature of our company for over a century.

The sister risks of internal strife and intergenerational succession are near inevitable in any family firm. Ours is no exception. However, at times when I have seen these risks managed well, I have seen empowered leaders, consistent family control, and the influence of non-family advisors and leaders.

Conclusion: Patient Capital beyond Family Firms

This chapter is intended to promote patient capital—specifically as illustrated by the four common traits in successful family businesses—as a worthy consideration for family firms, non-family firms, and policymakers alike. For non-family firms, I earlier offered the perhaps unhelpful view that the four positive traits of patient capital might rest beyond their grasp. Let me challenge my own assertion and say that the four traits promoted in this chapter are available to any business.

For those who agree with this point of view, two logical conclusions emerge: (i) the need to enable family firms to thrive; and (ii) the opportunity to encourage all firms—family managed or otherwise—to adopt the traits I have outlined in this chapter as their own.

SOURCE

Weston, Galen G. 2016. *Re-imagining Capitalism* (eds. Barton, Horváth, Kipping), Oxford: Oxford University Press.

QUESTION

What can the notion of 'patient capital' teach us about responsible governance in an increasingly globalized world?

Visit the online resources for web links to useful sources of further information.

Company' in Canada, Italy's 'Sociali Impresa', and Belgium's 'Social Purpose Company'. Probably the best-known version, however, is the 'Benefit Corporation' form that has been introduced in many states across the US. Such legislation protects firms from being forced by shareholders into acting solely in their financial interests.

THINK THEORY

Think about the nature of different ownership structures in terms of their ability to achieve the triple bottom line of sustainability in comparison to ethical shareholding that we looked at earlier in the chapter (SRI and shareholder activism). Which types of structures do you feel are best positioned to tackle sustainability issues?

Visit the online resources for a suggested response.

SUMMARY

6

In business ethics texts, shareholders are normally a somewhat neglected species. This is perhaps not surprising given that, since they are prioritized in virtually all other areas of management education and practice, business ethics is usually considered the area where a counterpoint can be developed. However, our view is that since they are such an important corporate constituency, it is simply inappropriate to sideline them in this way. This chapter has, therefore, tried to achieve a more balanced view of shareholders, and thereby accord them at least equal status with the other stakeholders discussed in the second part of the book.

We started by looking at the peculiarity of the principal–agent relation that defines the relationship between managers and shareholders, and provides the basis for our understanding of corporate governance. We showed here how divergent interests and an unequal distribution of information between the two parties effectively institutionalize some fundamental ethical conflicts in governance. This led us to examine the different models of governance evident across the globe, followed by the various ethical issues pertinent to shareholder relations, such as executive control, remuneration, insider trading, etc. Furthermore, the peculiar situation of shareholders also shone through in the three main issues that reframed the contemporary challenge for ethical business—globalization, citizenship, and sustainability.

Globalization and the advancing pace of technology, we have shown, have thrown up new challenges in the governance of international financial markets and driven a range of reforms in corporate governance across the globe. We also discovered that shareholder democracy enables investors to use their critical role in the supply of capital to influence corporations to behave more ethically. Finally, we showed how shareholders could also play a role in driving corporations towards enhanced sustainability by using the tools of sustainability indices, as well as through more unconventional patterns of ownership.

STUDY QUESTIONS

1. Why is the ownership of corporations different from that of other forms of 'property'? What implications does this have for the nature of shareholder rights?
2. Define corporate governance. What are the main ethical problems that arise in the area of corporate governance?
3. 'Executive pay is not an ethical issue—it is just a question of paying people a market rate.' Critically evaluate this statement using examples from contemporary business practice.
4. In this chapter we have mentioned a number of times the financial crisis of the late 2000s. In your view, what are the main reasons from an ethical perspective for the occurrence of this crisis? Also, what potential solutions would you see to prevent such problems occurring again?
5. Define insider trading. What are the main ethical arguments against insider trading?
6. How is the technological environment shaping corporate governance? Find at least three examples from the chapter and consider what the future of corporate governance could look like in an increasingly digitized world.

RESEARCH EXERCISE

Go to the university library or use the internet to do some research on the nature of corporate governance in your home country. You might find details in a corporate governance or corporate finance textbook, or on a website dealing with national governance codes or governance reform.

1. Set out as clearly as you can the system of corporate governance that operates in your home country.
2. To what extent is the system you have set out in accordance with the Anglo-American or the continental European governance model? How would you explain any differences?
3. What priority does this system appear to accord different stakeholders?
4. Do you think that the governance system in your country provides a fair basis for corporate activity?

KEY READINGS

1. Aguilera, R.V. and Jackson, G. 2010. Comparative and international corporate governance. *Academy of Management Annals*, 4(1): 485–556.
   Although somewhat lengthy, this review article provides a superb overview of different corporate governance regimes globally. It not only provides a structured and well-referenced summary of the debate but also explains historically the background of the different institutional arrangements around the purpose and responsibilities of corporate ownership. The article is an excellent basis for further understanding how and why corporate governance differs between countries.
2. Donaldson, T. 2008. Hedge fund ethics. *Business Ethics Quarterly*, 18(3): 405–16.
   This article provides an interesting and very readable account of some of the key ethical issues involved in corporation–shareholder relations by focusing on one particularly controversial form of financial institution, the hedge fund. It highlights the critical role of transparency in effective governance, and suggests possible routes for ethical reform of hedge funds through regulation and self-regulation. This latter discussion provides a good introduction to some of the debates to be covered in Chapter 11 of this book.

Visit the online resources for further key reading suggestions.

CASE 6 Corporate governance of professional football clubs: for profit or for glory?

This Case describes the corporate governance issues that have arisen in European football clubs. The ethical issues associated with the shifting ownership and investment landscape of modern football are discussed and alternative forms of ownership of football clubs are identified. The Case provides an opportunity to understand the tensions between ownership, shareholding, and stakeholding in a unique industry context.

When Manchester City were crowned champions of the English Premier League for the third time, in 2018, their Spanish manager, Pep Guardiola, remarked, 'the league is everything ... the players deserve all my respect'. But City's talented and respected group of players had only been made possible by the huge influx of cash from owner, Sheikh Mansour bin Zayed al Nahyan, and his Abu Dhabi Investment Group, which had invested more than €1 billion in the club since taking over in 2008. City's new-found riches transformed the club from mid-table obscurity to champions, turning the tables on their long-time overachieving neighbours, Manchester United. Unsurprisingly, United's fans voiced their disapproval; but disquiet with City's turnaround went far beyond their Manchester rivals. As *Forbes* magazine remarked, 'Manchester City will not be popular champions with many, because ultimately they bought the title.' In fact, only days after claiming the title, City were landed with a record €60 million fine from UEFA (the European football governing body) for breaching financial fair play regulations, having racked up hundreds of millions of pounds in losses over the past few years in their search for glory. With wealthy backers seemingly intent on spending their way to victory, whatever the costs, Manchester City's story crystallized the transformation in European football from a community sport to a multi-billion-dollar international industry with serious corporate governance problems.

The changing face of the football 'industry'

The commercialization of football has been a significant trend since the 1980s—and one that has transformed almost beyond recognition the way the sport is organized, controlled, marketed, and financed. Long gone are the days when football players in Europe's top leagues would earn wages not much different from the supporters in the stands. Today, the elite clubs pay their stars millions of dollars a year in salary, which is then further increased with image rights and endorsements. In 2017, football's top earner, Cristiano Ronaldo, raked in some $93 million in total earnings, placing him at number five in *Forbes*' annual list of the world's most powerful celebrities.

One of the key changes, of course, has come from the growth of commercial television in the game. This has led not only to vast increases in income for the clubs themselves, but also to a larger, global audience for the teams and their players. It is now commonplace to find fans of Europe's top clubs, such as Manchester United, Real Madrid, or AC Milan, in Africa, Asia, and Latin America. Parallel to these huge TV revenues, opportunities for generating revenue from merchandising club paraphernalia and advertising contracts have increasingly helped to fill the clubs' coffers. In 2017, Ronaldo's former club Manchester United was named as the world's richest club with a revenue of $765 million, followed by Barcelona ($688 million), Real Madrid ($688 million), and Bayern Munich ($657 million).

Another major change has been the trend towards new ownership and investment models for football clubs, particularly among the English Premiership elite. Starting in the 1990s, many UK clubs began listing their stock in order to source new investment, such that by the mid-1990s, 27 clubs had listed on the stock exchange. However, football clubs quickly fell out of favour with shareholders because of their meagre return on investment, especially with escalating player salaries eating into profitability. In fact, since 2006/7, wage costs have consumed 83% of Premier League clubs' revenue growth. In 2016, therefore, only three British teams remained publicly listed.

In the place of public ownership models, many clubs have been taken back into private ownership, typically by wealthy individuals and private investment companies. For instance, Manchester United is majority owned by the Glazer family via the Red Football parent company, having delisted the club from the stock exchange in 2005. Similarly, Chelsea is owned by parent company Fordstam Limited, which is controlled by Roman Abramovich, the Russian oligarch. Private ownership has often been accompanied by huge accumulation of debt to finance the initial purchase of clubs and sustain growth. In 2016, Manchester United owed some £261 million and Chelsea recorded a whopping £1.14 billion in debt. The total net debt held by English Premier League clubs was reported as being £2.2 billion. While still a huge sum, this was an improvement on recent years, given a reduction in 'soft loans' (borrowing money on interest-free terms from club owners).

A similar pattern, albeit with some variations, has taken hold across many of Europe's biggest clubs. **Table 6.3** describes the ownership structure of some of Europe's top clubs by revenue, most of which exhibit very narrowly held ownership. The big difference comes in Spain, where the country's two footballing giants, FC Barcelona and Real Madrid, are both owned by supporters' associations.

Governance challenges

With these developments towards commercialization and private capital investment, significant challenges confront the football 'industry'. With roots in what was a simple local institution for fans and communities, many football clubs have struggled to enter the world of professional business, not only in the UK, but all over Europe.

Spectacular bankruptcies, such as the one at Rangers in Scotland in 2012, which saw the club liquidated and eventually admitted into the fourth tier of the Scottish league as a new company, are one obvious manifestation of these problems. By 2012, there had in fact been 92 instances of insolvency at clubs competing in the top five divisions in England since the formation of the Premier League in 1992. In Italy, 103 professional clubs from the four top divisions collapsed between 2002 and 2012, with even the likes of AC Milan struggling under years of accumulated debt under the ownership of Italy's former Prime Minister, Silvio Berlusconi. More than 20 Spanish clubs went into bankruptcy protection in the 2010s alone.

6

Table 6.3 Ownership structure of top European football clubs

Forbes 2017 Ranking	Club	2017 Revenue* (million $)	2017 Value* (million $)	Country (owner)	Ownership
1	Manchester United	765	3,689	US (Glazer family); UK (Red Football company)	Public Corporation listed on the New York Stock Exchange, majority ownership by Glazer family via Red Football parent company.
2	FC Barcelona	688	3,635	Spain	Registered Association owned by supporters who elect the club's president. The club president cannot invest money and can only spend what the club earns. It is not possible to purchase shares in the club, only membership.
3	Real Madrid	688	3.58	Spain	Registered Association as per FC Barcelona.
4	Bayern Munich	657	2,713	Germany	Joint stock company run by FC Bayern München AG (spin-off company). Stock is privately owned; 75% by the club and the remaining 25% by Adidas, Audi, and Allianz.
5	Manchester City	583	2,083	United Arab Emirates (Sheikh Mansour)	Fully owned by Sheikh Mansour (Mansour bin Zayed Al Nahyan), deputy prime minister of the United Arab Emirates, minister of presidential affairs, and member of the ruling family of Abu Dhabi, since 2008.

Source: *Forbes*: http://www.forbes.com/soccer-valuations. Value is based on past transactions, market value, debt, and stadium

Across Europe more generally, many football clubs have struggled to generate profitability despite increasing revenues. The German Bundesliga and the English Premier League have been the only 'big five' leagues in Europe (the others being Italy, Spain, and France) to even generate an operating profit, before financing and player trading is taken into account; once they are included, the picture has looked even bleaker. For instance, the net losses of the 20 Premier League clubs run to several hundred million annually (approximately £111 million in 2017). The Bundesliga, however, has succeeded in remaining the most profitable in Europe, mainly because of regulations from the German football authorities that exercise greater control over the ownership and financial models of clubs. First, clubs are limited in terms of how much they can spend on wages relative to revenues; and second, external ownership of German clubs is restricted, which prevents wealthy foreign owners from pushing up costs and debt loading by owning more than 49% of voting rights in any particular club.

Beyond Germany, UEFA (the European governing body) has also sought to bolster the financial management of European football clubs. UEFA's Financial Fair Play regulations, which were first applied in the 2011/12 season, aim to encourage clubs to build for long-term success using sound financial management. They were brought in to stop what UEFA general secretary Gianni Infantino referred to as 'greed, reckless spending, and financial insanity' within European football. The main requirements of the regulations are that any club qualifying for a UEFA competition must prove that they do not have overdue payables towards other clubs, players, and tax authorities; and break even (starting in the 2013/14 season).

Clubs not meeting these requirements face a range of sanctions including fines, points deductions, and even disqualification. Manchester City's punishment in 2014, for example, not only landed them a hefty fine, but also restricted the number of players they could register for the following season's Champions League—thereby inflicting a significant blow to their hopes for success in the competition.

Since UEFA's regulations only apply to clubs entering European competitions, they have also prompted similar moves to regulate domestically. The Football League, for example, which represents the lower tiers in England, announced the agreement of a Financial Fair Play framework including a break-even rule and a protocol limiting total spending on player wages to a proportion of club turnover.

The role of fans

Another major governance challenge facing European football concerns the role of fans in the running of football clubs. After all, at the end of the day, clubs depend on their fans for their livelihood, as either spectators, TV audiences, or consumers of merchandise. Also, football fans are unlike typical consumers in that they rarely if ever switch allegiance and so are 'brand loyal' often for their entire lives, regardless of the varying fortunes of their team. This means that they might be seen as one of the most important stakeholders in the club and could be expected to have a significant say in the running of its affairs.

In recent years, several initiatives have been taken to address fans' interests more directly, as two examples from the UK illustrate. A government-funded initiative, Supporters Direct, was initiated in 2000 to encourage the creation of supporters' trusts, which organize collective shareholding for fans in their clubs. The aim of these trusts is 'to bring about responsible, democratic representation at spectator sports clubs, and so help promote the highest standards of governance, accountability and embed those clubs deeper into their communities'. The trusts have grown in popularity among supporters, with many clubs now having one, but in only a handful of small teams have the trusts directly assumed ownership of the clubs.

Another initiative by the clubs themselves has been the Football in the Community scheme. This involves clubs participating in various social projects, generally targeted at embedding the club in the local community and addressing social exclusion, unemployment, or antisocial behaviour in the immediate vicinity. Corporate social responsibility programmes have become more widespread in the world of football, especially among large clubs, where teams such as Arsenal and Chelsea now have initiatives, reports, and websites dedicated to CSR. Even smaller UK clubs, such as Charlton and Brentford, have initiated a host of award-winning community schemes, often in partnership with fans, the police, and local councils.

While these philanthropic initiatives appear laudable, the tension around the core purpose of a football club remains: is it just another business that can 'give back' to the community some of its commercial success, or is the actual primary purpose of clubs to provide value to fans? Perhaps the most striking alternative is illustrated by clubs such as Real Madrid and FC Barcelona, which are member-owned, democratic, not-for-profit organizations. Here, the club leadership is accountable to the people who watch and pay, and the primary rationale for the club is to play football. Members at Barcelona, for example, can vote on the election of the club's president and the governing board, and have a right to participate in key decisions.

Barcelona and Real Madrid are both hugely successful teams that have dominated the Spanish league for decades, as well as recording a string of European successes. It is hardly surprising, therefore, that they have attracted an avid membership, as well as recording some of Europe's highest annual revenues, demonstrating that it is not necessary to have either a wealthy oil sheikh or stock market financing to be financially viable at the top of the game. Nonetheless, the domination of Real and Barcelona in Spain has often come at the expense of Spain's other teams, who have rarely been able to exercise the kind of economic muscle necessary to challenge for the Spanish title and compete with the European elite.

Back in the UK, governance issues have remained high on the agenda in the wake of financial problems among various clubs, a failure to nurture domestic talent (leading to poor showings of the national team in international tournaments), and an ongoing unease about the source of funds flowing into the game. A Parliamentary Football Group proposed a number of recommendations to enhance governance in the 'industry', including an enhanced 'Fit-and Proper-Persons test', which was adopted by the Premier League in 2009 in order to exclude unscrupulous club owners and directors. While the test offers some useful protection to UK clubs, it is not without its critics. In 2017 there were calls for reform by the UK campaigning organization Supporters Direct following rent strikes, controversial stadium moves, and the subsequent demise of Coventry City under the ownership of hedge fund, SISU Capital, among other issues. Additionally, in the case of Manchester City, Sheikh Mansour passed the test, but not without criticism from NGOs such as Human Rights Watch, which denounced Abu Dhabi (the country that he, as deputy prime minister, and his family run) as a repressive 'black hole' for human rights.

QUESTIONS

6

1. Set out the main stakeholders of football clubs. Describe their 'stake' in the organization and assess the legitimacy of their interests.
2. What are the key governance issues that each of these stakeholder groups might have?
3. The Case describes a number of approaches that offer potential solutions to the governance issues raised. Set out these approaches and evaluate their likely effectiveness in dealing with governance challenges in football clubs.
4. Ultimately, who 'should' own football clubs and what should their priorities be in managing the enterprise?

Visit the online resources for web links to useful sources of further information on this Case.

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7

Employees and Business Ethics

Having completed this chapter you should be able to:

- Explain the specific role of employees and workers as a stakeholder.
- Describe the main employee rights and duties.
- Critically evaluate the ethical issues raised by globalization for managing employees.
- Explain the role of good corporate citizenship in managing human rights.
- Identify the implications for sustainability of firms' relationships with employees.

Key concepts:

- Gig economy
- Modern slavery
- Employee rights
- Employee duties
- Workplace discrimination
- Employee privacy
- Employee participation
- Work–life balance

INTRODUCTION

Personal experience within the workplace, whether in a part-time role while studying, as a holiday job, or as a graduate recruit, is likely to be the first place ethical issues and dilemmas in business are personally encountered for most of us. As a manager, CEO, or in any other role, the responsibility to colleagues and employees is core to the ethics of the organization. Whether it is a question of fair wages and conditions, sexual harassment in the workplace, or simply taking advantage of company resources for personal use, work-related ethical problems are unavoidable for most people. Such problems can run from the everyday questions of how to ensure fair access to an apprenticeship for disabled workers to fundamental questions of human rights.

It is also worth noting that, in the end, it is the people working within an organization who deliver its business ethics programme. **Ethics in Action 7.1** illustrates how those who are highly motivated ethical employees can help to support moral practice outside of the usual systems

Ethics in Action 7.1 **When saving the world is your day job**

When Sam McCracken, a young Sioux Indian working in a Nike warehouse in Oregon, had the idea of organizing fun runs in his community to honour his mother, who had died from type 2 diabetes, he had no idea that it would lead to him one day becoming general manager of a new line of footwear for the sportswear giant.

McCracken's passionate belief that sport can help combat the epidemic of diabetes in Native American communities led to him working with the company's shoe designers to create the Nike Air N7 shoe, designed with a larger fit for the distinct foot shape of American Indians. In its sustainability credentials, N7 also embodies the Native American principle of sustainability—thinking of seven generations ahead and seven behind. And it set in motion positive changes that have brought wide benefits for both himself personally, Native American communities across North America, who get proceeds from the sale of N7, and the Nike brand.

When Maggie De Pree, founder of the League of Intrapreneurs, is asked to explain what an intrapreneur is, McCracken is one of them: people she describes as 'perpetual problem solvers', driven to work on developing new business models, products, and services to address real-world problems as part of their day jobs, no matter where they are in the company.

De Pree estimates that 10% of people in companies could be intrapreneurs if they had an enabling environment, though her organization is looking to build up more robust data. She launched the League of Intrapreneurs in 2013 with a global competition to find out who the leading changemakers in companies are. The competition attracted 200 entries from 52 countries and more than 30 industries.

'This is a phenomenon that is global. It's not just about M&S, and Unilever, and Interface', De Pree says. And the main wellspring of the movement is millennials. 'Young people today are hungry to find purpose and meaning in the workplace. The intrapreneurs movement fits squarely with that. For most of them it's quite refreshing to find out there is a language for what they are doing. They think: 'I'm not a misfit. I've got a role to play'.

Miriam Turner, director of disruptive innovation at Friends of the Earth and formerly associate vice president of co-innovation at Interface, is another intrapreneur featured on the League of Intrapreneurs website, and is one of the league's advisors. She drove through the Net-Works partnership with the Zoological Society of London (ZSL) to develop a supply chain for Interface's carpets using discarded fishing nets.

The partnership tackles poverty-alleviation in fishing communities in the Philippines and Cameroon as well as a pressing environmental problem, as old fishing nets and gear are responsible for around 10% of the debris in oceans. Turner acknowledges that a company with sterling sustainability credentials like Interface can provide fertile ground for intrapreneurs to grow, but it is not a given.

'It helps if you are in a company where it's understood that the purpose of the company is to make the world a better place as well as good financial performance, but there needs to be permission and space for people to act on that, rather than it just be a tagline', Turner says. 'And even in a purpose-driven company, the intrapreneur has to show how the initiative creates value for the company, as well as the wider world.'

One of the critical factors for success is for intrapreneurs to have a senior-level person to give them 'air cover', though this can also pose risks if that ally then moves elsewhere. The other risk is that companies will change governance and strategies, as happened with the clean-energy intrapreneurs at BP and Shell, who left when the companies abandoned their beyond petroleum strategies. A change of leadership clearly presents a real risk for an intrapreneur.

Companies also need to have patience at the pace of change. 'Things aren't going to happen quickly if you are out to change the world',' Turner says, so that the normal hurdle rates and parameters may not apply, at least at first. They should also be willing to work with 'unusual suspects' outside the company.

De Pree says: 'It's about solving problems, not just creating a product or service. And while it has business value, it may not fit in the four walls of your organization, and that may require different governance structures and spin-outs'.

Turner adds: 'That's exactly what is happening now with Net-Works, which is looking to bring other corporate partners on board, alongside Interface, and exploring potential new structures that will increase its impact and reach'.

Though she now works at Friends of the Earth, Turner says: 'I still self-identify as an intrapreneur even though I work for an NGO. Intrapreneurship is not just confined to corporations. One trend we are seeing is that people in companies who have been corporate intrapreneurs are taking those skills to different sectors . . . They recognize that some of the levers for larger-scale change may be government or civil society, often still working in partnership with business.' De Pree points out that the skillsets possessed by intrapreneurs are precisely those required as companies look to collaborate with other companies, government agencies, and NGOs in multistakeholder partnerships.

> One of the things we've heard is how important it is to find the people who have the skillsets to make these collaborations work. People have approached us asking 'can we have a "League of Coffee" or climate intrapreneurs please'. It's shorthand for people who collaborate and aren't afraid to try things out and then bring it back to business [and demonstrate] the value of it.

For De Pree, the value to business of a more inclusive, collaborative approach to doing business is crystal-clear: 'From supply-chain resilience to innovation, to expanding into new markets, inclusive business is about business that operates as an integral part of society. Intrapreneurs are often at the core of this, because many are exploring what it looks like if we bring our values to work every day and truly live them.'

SOURCE

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QUESTIONS

1. Who is best placed within a business organization to come up with new ideas around business ethics?
2. Should business ethics be a specialist role in the business or should it be everyone's responsibility?

Visit the online resources for web links to useful sources of further information.

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and structures of the organization through their own drive, energy, and commitment. But the reverse case is also possible—employees who fail to implement ethical guidelines when they should do and block the intended responsible practice. Indeed, where appraisal and performance measurement focus, for example, on product quality and cost cutting, it is no wonder that it is these things which drive decisions. For instance, investing in improved and more complex processes to enhance diversity in recruitment may bring long-term benefit but not register short-term gain, and therefore not be rewarded. In short, employees and workers are the conduit through which business ethics is implemented. Without understanding their role fully, it is difficult to understand business ethics in the round.

It could be argued that ethical issues within the work organization predate the study of 'business ethics'. When we look to the first wave of the Industrial Revolution in the 19th century, the fair and proper treatment of employees was a controversial issue from the outset. Famous authors, such as Charles Dickens in his novel *Hard Times*, explored the exploitation and poor working conditions of factory workers during this era, including the role of the productivity- and profit-driven manager, Gradgrind, who celebrates logic and reason over recognition of the humanity and often vulnerability of those who work for him. In a more positive vein, in a minority of cases this period also saw instances of industrialists setting an example by looking after their workers' housing, healthcare, and diet, though these benefits came with the price of adhering to certain expectations driven by paternalistic beliefs, values, and religious commitment (Heald 1957). As some have argued, this involvement of business leaders with the working and living conditions of their workers was often motivated by what we referred to earlier as 'enlightened' self-interest: only if workers live in half-decent circumstances are they likely to be healthy, productive, and contribute to the firm's economic success (Fitzgerald 1999; Zheng et al. 2015).

7

One could, in fact, argue that the major political divide of the 20th century—between capitalism on the one hand and socialism or communism on the other—originally focused on the function of employees in the working process. Karl Marx, Lenin, and even Mao developed their ideas ostensibly with the improvement of workers' living conditions in mind. On a smaller scale, the political agendas of traditional 'labour', 'socialist', or 'social democratic' parties were targeted at changing legislation, implementing a so-called 'welfare state', and providing the masses with an entitlement to decent working conditions. By the end of the last century, however, with socialism and communism in retreat, and even most left-wing governments under heavy budget pressures to cut back on the welfare state and reduce regulation, ethical issues in employment had regained their position on the business ethics agenda.

These days, however, such issues are treated somewhat differently than in the past. Crucially, there are still problems similar to those faced by workers in the 19th century, in both industrialized countries and developing economies, though they take somewhat of a different format. MNCs from the global North are confronted with issues such as the protection of workers' human rights in their factories in Bangladesh, China, or Cambodia, while in their own countries a variety of different ethical questions for MNCs arise from the usage of new technologies and the introduction of new work environments such as call centres (Fleming and Sturdy 2011). In addition we see emerging challenges of new business models, such as the so-called gig and sharing economies—where those doing the work are not formal employees of the organization. Precarious forms of work, up to and including modern slavery, are evident across the world and make visible some of the extreme challenges of business ethics for workers who are not employed in any traditional sense, but are considered to be forced, bonded, or unfree labour, that is, exploited workers (Crane et al. 2017). Modern slavery is an extremely complex subject and we are just beginning to get to grips with it. In **Ethics in Action 7.2**, Jacqueline Joudo Larsen of Walk Free Foundation and the International Labour Organization's Michaelle De Cock describe how they pulled together the first data set on the 40 million people enslaved in the contemporary global economy.

A crucial development here seems to be that fewer and fewer issues are directly addressed through governmental legislation compared with 50 years ago. Increasingly, we witness a growing tendency to leave the solution of these issues to businesses themselves. Consequently, the discussion of ethical issues *within* firms is a matter of growing interest and concern.

Gig economy A term which originates from the idea of a musician being paid for an individual performance, or 'gig'. In a wide range of jobs, from coffeeshop barista to university lecturer, individuals are hired for a specific task rather than being employed longer term for exactly the same task. While for the business a great deal of flexibility is gained, and for some workers this loose arrangement is desirable, on the whole, workers in the gig economy are subject to increased economic risk and uncertainty, and lack the social welfare structures (pensions, holiday entitlements, healthcare) associated, in many economies, with employment (Friedman 2014).

Modern slavery A complex topic with multi-faceted elements that include people who are: (1) forced to work through threat; (2) owned or controlled by an 'employer' particularly through mental, physical, or threatened abuse; (3) de-humanized and treated as a resource; (4) physically constrained or restricted in freedom of movement; (5) subject to economic exploitation through underpayment (Crane 2013b). For a critique of the modern slavery terminology, see an interview with Julia O'Connell Davidson (O'Connell Davidson and Martins 2016).

EMPLOYEES AND OTHER WORKERS AS STAKEHOLDERS

People who work for an organization are a special kind of internal stakeholder. Whereas shareholders basically 'own' a share of the corporation as we saw earlier, employees constitute the firm. They are perhaps the most important production factor or 'resource'. Those that are formally employed by the firm enjoy a range of employment rights and obligations, depending on the contractual and legal requirements with which the firm must comply. However, there is an important distinction here.

Not all those who work for a firm are strictly speaking employed by it. Students and graduates gain unpaid 'work experience' as interns—this may be valuable workplace learning and a route to employment but can also be exploitative, with firms covering a post with consecutive interns. Such interns work for the firm but they are not employed by it. Some workers may be contracted to work in one organization but employed by a different firm. Cleaners in large organizations, for example, often work for a private sector provider but not on their premises, though they may spend many years cleaning the same schools or hospital wards, or even be self-employed. Arts organizations may be run almost entirely by volunteers who have no

Ethics in Action 7.2 To end modern slavery, we first need to see the whole picture

Over the past few weeks we have seen continued stories on our screens and in our newspapers of people—mostly women—in modern slavery here in the UK. They typically face challenges few of us can even imagine: such as having been sent here by force, away from their families and the comforts of home, and being forced into a life of servitude, labour, and sexual exploitation. Yet for every story we read, many hundreds of thousands go unreported.

A vital first step in eradicating the scourges of modern slavery and child labour is to understand the scale of the problem. Only when we understand how many people these impact, and where, can we design long-term solutions to this terrible issue.

To gain some sense of the challenges we face, in 2017 the Walk Free Foundation and the International Labour Organization launched the 2017 Global Estimates of Modern Slavery and Child Labour at the UN General Assembly, New York. This means that, for the first time, we had consolidated data that can act as a benchmark for policymakers and others. This will help us to track efforts to achieving Sustainable Development Goal 8.7: to eradicate forced labour, end modern slavery and human trafficking by 2030, and eliminate child labour by 2025.

The figures show that around the world there are 40.3 million men, women, and children who are victims of modern slavery. That is equivalent to the entire population of Canada, more than six times the number of people who work in the entire US financial industry, or the combined population of the world's two most populous cities, Beijing and New Delhi.

They also show that forced labour, imposed by employers in private businesses and by states on 25 million people, accounts for nearly two-thirds of all modern slavery globally. Of these, most victims are forced to work in the private sector. That means they were being forced to work under threat or coercion as domestic workers, on construction sites, in clandestine factories, or on farms and fishing boats.

Maybe surprisingly, most victims of forced labour (58%) in the private sector are female. Male victims outnumbered females in the agricultural, construction, and manufacturing sectors, but the largest overall group of victims is found in domestic work, which is dominated by women. In fact, women account for 71% of all modern slavery numbers globally, which is largely due to forced sexual exploitation and forced marriages.

Definitional complexity and its clandestine nature make modern slavery difficult to measure. To counteract this, and with no single source providing suitable and reliable data on all forms of modern slavery, Walk Free Foundation and the ILO have used a methodology that combines in-country research with pre-existing data on victims of trafficking who have been assisted by the International Organization for Migration. The core element of the methodology is information collected through household surveys in 48 countries. The surveys involved face-to-face interviews with more than 71,000 people in 53 local languages.

In tandem, data sets from 105 countries were analysed for the child labour number—with 24 of the data sets derived from National Child Labour Surveys implemented by the ILO, in collaboration with national bureaus of statistics. The data sets cover all the world's regions and more than 1.1 billion children, about 70% of the global population of children aged 5 to 17.

In total, the ILO estimates that 151.6 million children, 1 in 10 globally, are in child labour. They are involved in work that is hazardous, demands too many hours, or is performed by children who are too young. The good news is that this number is down from 2012, but the current pace of change means we won't achieve the target to eliminate it by 2025.

Some children are in a situation of forced labour. Children are particularly vulnerable, and represent one in four victims of modern slavery in 2016. Children account for 21% of victims of sexual exploitation, 18% of victims of forced labour, and 7% of people forced to work by state authorities.

We all have a responsibility to act on these issues. These children were forced to work by private organizations and by state authorities. In many cases, the products they made and the services they provided ended up in seemingly legitimate commercial channels. Forced labourers produced some of the food we eat and the clothes we wear. They have also cleaned the buildings in which many of us live or work.

Children also account for one third of the 15.4 million victims of forced marriage. One is Shahida, a 13-year-old Afghani girl who was forced to marry a 45-year-old man. After her father had arranged it, Shahida moved in with her husband. Very unhappy, she ran back home, where her father turned her away. Refusing to return to her husband, Shahida's father dug a deep hole which he forced her into and began covering her. Luckily, neighbours heard her cries for help and were able to help her escape. But not every girl is rescued.

Consumers, the business community, and government all need to play their part in ensuring we eliminate all forms of modern slavery and child labour. This must be driven by holding individuals, corporations, and politicians to account, taking clear and systematic action, and, most importantly, by the inspiring stories of survivors, who remind us of our collective responsibility. By understanding the scale of the problem, and harnessing the power of data, we can begin to eradicate the epidemic of modern slavery and child labour.

SOURCE

Jacqueline Joudo Larsen and Michaelle De Cock. 2017. To end modern slavery, we first need to see the whole picture. *Ethical Corporation*, 13 October.

QUESTIONS

1. Child labour is a highly emotive topic. It is often assumed that it happens 'somewhere else'. Do some research to see what the history of child labour is in your own country.
2. Go through all the ethical elements mentioned in this chapter. Which ones are pertinent in the case of modern slavery?

Visit the online resources for web links to useful sources of further information.

contractual relationship to the organization they give their labour to at all, doing so free of charge. Or hotel workers who are on zero-hours contracts, such that they are not guaranteed a minimum number of work hours but must be available if called upon if they wish to remain on good terms with the firm. Finally, some people who work for a firm are the owners of that firm, as in the case of co-operatives discussed in Chapter 6 on shareholders. In the case of co-operatives, such as the John Lewis Partnership in the UK, this is taken very seriously, to the extent that the workers are not called employees (though they have an employment contract) but 'partners' to demonstrate the commitment of the founder to sharing power (Storey and Salaman 2017). Indeed, in the case of workers who own the business, the stake in the firm is likely to be far greater than for a straightforward employee, since the firm's success is fairly directly a success for the worker/owner.

The worker/employee distinction is important, because we might usually expect the level of the stake in the organization to be greater for those who are employed by it, although other types of workers may be equally reliant on their income from that firm. Even those who are formally employed may hold several jobs simultaneously and hold no particular loyalty to the firm in question. The rise of the **gig economy** has brought such idiosyncrasies in the type of worker into sharp relief. The case of US firm Uber has almost single-handedly shifted the thinking around the nature of being a worker, the impact that an employment contract makes, in terms of benefits to and protections for the worker, and the exploitation of a flexible workforce by corporations (Elbanna 2017).

THINK THEORY

In Chapter 2 we discussed different models of the firm, notably the managerial view and the stakeholder view. The managerial view puts shareholders' interests first, while the stakeholder perspective would consider other groups' interests as legitimate as well. Try to construct an ethical argument in favour of employees as legitimate (or even dominant) stakeholders of the firm. How does this differ if the worker is not in a formal employment situation?

Visit the online resources for a suggested response.

Referring back to our definition of stakeholders in Chapter 2, both the legal and the economic side of the relationship between formal employees and the corporation are worthy of examination. On the *legal* level, there is normally some sort of contract between the corporation and the employee that stipulates the rights and duties of the two parties. This relationship is quite strongly embedded in a dense network of legislation that provides a legally codified solution to a large number of issues between companies and employees, such as minimum wages, working conditions, and due process. Although there are a fair number of legal rules pertinent to all other stakeholder relationships, the relation between corporations and employees is unusual in that it has traditionally been the subject of governmental regulation in most countries from the very beginning of the Industrial Revolution onwards.

This characteristic has strong implications also for the *economic* aspect of firm–stakeholder relationships. The relationship between firms and employees is characterized by certain externalities on both sides—by which we mean that there are costs to each that are not included in the employment contract. These hidden costs can lead to situations of 'asset specificity'—that is, employees 'invest' time and effort in developing 'assets' specific to a particular employer, and vice versa. Such costs of specificity can create what we call a *moral hazard* for both parties, opening up a wide range of ethical issues. Examples from the perspective of the employee include investing in a new job by moving to a new town, which might involve things like leaving behind friends and family, finding new schools for your children, etc. Another aspect is hidden in the familiar English synonym of 'making a living' for having a job. Much of our waking life is committed to our job. As a result, it is often the place where friends and social relationships are made and where the human need for self-actualization is met. All of this results in a considerable amount of dependence from an employee on their employer.

Employers, on the other hand, also face similar elements of moral hazard from their employees. A spectacular example is the spate of 'rogue traders' that have caused billions of dollars of damage for the banks that employed them, such as Kweku Adoboli of Swiss Bank UBS, or Jérôme Kerviel of Société Générale. Companies do not have complete control of their employees, and can sometimes find out only later whether they do their job properly. Especially in finance, IT, and other knowledge-intensive industries, employees have considerable power and autonomy due to their specialized knowledge. Employers face the risk that some of their most valuable 'assets' might remain underused or even be poached by a competitor.

As mentioned above, many of these moral hazards in the employer–employee relationship have been subject to legislation. Since the moral hazard is normally greater for the employee (because they are the more dependent and weaker party), most of this legislation focuses around workers' rights. However, as we have discussed in Chapter 1, there are clear limits to the legal trajectory in settling ethical issues. Indeed, the nature of the relationship between employer and employee often makes the sheer application of existing law (and the exploitation or otherwise of legal loopholes) an object of ethical considerations. Remember, in Chapter 2 we discussed 'legal responsibility' as one of the four key elements of corporate social responsibility. In this chapter, therefore, we will look at the issues involved in the relationships of the company to the stakeholder group of employees.

ETHICAL ISSUES IN THE EMPLOYMENT RELATIONSHIP

MANAGEMENT OF HUMAN 'RESOURCES'—AN ETHICAL PROBLEM BETWEEN RIGHTS AND DUTIES

Employees are, in principle, managed by the human resources department—a term which already indicates a first problem from an ethical perspective. As it is, the term 'human resource management' (HRM) and its implications have been the subject of some debate in business ethics (Jack, Greenwood, and Schapper 2012). If we recall Kantian theory, the second maxim requires us to treat humanity 'always as an end and never as a means only'. HRM, however, does exactly this: we as humans are constituted as an important *resource*, and in most cases the most costly resource as well. Consequently, employees are subject to a strict managerial rationale of minimizing costs and maximizing the productivity of the 'resource'. In fact, one could argue that the core ethical dilemma in HRM lies in the fact that people in the firm, under economic criteria, are nothing more than a resource, next to and often competing with other resources, most notably new technology or cheaper resources—raw materials and labour—from overseas.

Ultimately, though, the management of human 'resources' implies more than just the application of economic criteria. In other words, human beings within the firm are, of course, a means to an end as they are employed to perform certain functions. However, from an ethical perspective, they should not be treated as a means *only*, and it is this restriction that makes all the difference in terms of business ethics. This distinction becomes fairly visible when looking at the gap between the rhetoric of HRM policies and the reality often hidden behind it, outlined in a classic article on HRM by Karen Legge back in the 1990s, which still holds true. Some common examples are given in **Table 7.1**.

According to Kantian thinking, it is human dignity that forbids treating employees as a means only, and it is this duty that constitutes the main ethical boundary for the management of employees. As we argued earlier, Kantian duties have their equivalent in the rights of the individual. Human beings deserve respect and are entitled to certain basic rights. It is therefore

Table 7.1 Rhetoric and reality in HRM

Rhetoric	Reality
'New working patterns'.	Temporary and part-time instead of permanent full-time jobs. Precarious working arrangements.
'Flexibility'.	Management can do what it wants. Zero-hours contracts.
'Empowerment'.	Making someone else take the risk and responsibility beyond their pay and position.
'Training and development'.	Manipulation. Maximization of productivity.
'Recognizing the contribution of the individual'.	Undermining the trade union and collective bargaining.
'Team working'.	Reducing the individual's discretion.

Source: Updated by the authors. Based on Legge (1998)

no surprise that the central ethical issues in HRM can be framed around the issues of **employee rights** (workers' entitlements with respect to their employer) and **employee duties** (workers' obligations to their employers) (van Gerwen 1994; Rowan 2000).

Employee rights Entitlements of workers with respect to their employer, based on a general understanding of human rights and often codified in employment law.

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Employee duties Obligations of workers towards their employer, based on individual contracts and wider employment laws.

THINK THEORY

Think about what it means to talk about employees and workers in terms of 'human resources'. Compare Kant's theory with the ethics of care approach to business ethics explained in Chapter 3 in relation to human resource management. Do you think the term HRM is adequately chosen? What are the implications of this terminology from both perspectives?

Visit the online resources for a suggested response.

Table 7.2 provides a selection of the most important rights and duties and the main ethical problems commonly associated with them in the day-to-day reality of business. We should stress that these rights and duties are all more or less directly deduced, either from the general notion of human rights, or are in some way or other codified in various employment and contract laws. The codification of workers' rights is particularly advanced in Europe (Poole 2013) so that corporations in most cases should simply have to obey the existing law in the country. From this perspective, the density of codified employee rights would suggest little necessity

Table 7.2 Rights and duties of employees

Employee rights	Issues involved
Right to freedom from discrimination.	• Equal opportunities. • Affirmative action. • Reverse discrimination. • Sexual and racial harassment.
Right to privacy.	• Health and drug testing. • Electronic privacy and data protection.
Right to due process.	• Promotion. • Firing. • Disciplinary proceedings.
Right to participation and association.	• Organization of workers in works councils and trade unions. • Participation in the company's decisions.
Right to healthy and safe working conditions.	• Working conditions. • Work–life balance. • Presenteeism. • Occupational health and safety.
Right to fair wages.	• Pay. • Industrial action. • New forms of work.
Right to freedom of conscience and speech.	• Whistleblowing.
Right to work.	• Fair treatment in the interview. • Non-discriminatory rules for recruitment.
Employee duties	**Issues involved**
Duty to comply with labour contract.	• Acceptable level of performance. • Work quality. • Loyalty to the firm.
Duty to comply with the law.	• Bribery.
Duty to respect the employer's property.	• Working time. • Unauthorized use of company resources for private purposes. • Fraud, theft, embezzlement.

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for ethical reasoning in firm–employee relations. As discussed in Chapter 1, though, there is a widening 'grey area' of ethical issues beyond those covered by the law, and worker rights (whether formally employed by the firm or not) is one of the most prominent parts of this zone. This prominence is chiefly due to globalization and its effect on the ability and willingness of nation states to regulate and enforce the protection of employees. Consequently, we have seen a massive surge in business involvement in ethical issues in HRM, mostly under the broader labels of 'labour standards' and 'business and human rights' (United Nations 2008; Brenkert 2016). Almost all of the rights of employees that are set out in **Table 7.2** are derived from a more fundamental human right as enshrined in the Universal Declaration of Human Rights (UDHR).[1] Although it has its critics, as George Brenkert discusses in his review of human rights from a business ethics perspective, the UDHR continues to be the broadest common baseline on basic human entitlements globally, despite some objections from moral, cultural, and religious perspectives. Nevertheless, global companies have begun to align their employment policies more with human rights. This has led to a number of global codes of conduct for firms and industries that govern the treatment of workers. Most of these are based on the various labour standards of the International Labour Organization (ILO), which they capture under the heading of 'decent work', and take the form, among other things, of 'legal instruments drawn up by the ILO's constituents (governments, employers, and workers) and setting out basic principles and rights at work'.[2]

In the following sections, we will discuss each of the employee rights set out in the top half of **Table 7.2**, before proceeding to examine the three main employee duties to the firm that are depicted in the bottom half of the table.

DISCRIMINATION

Workplace discrimination occurs when employees receive preferential (or less preferential) treatment on the grounds of some enduring human characteristic that is not directly related to their qualifications or performance in the job.[3] The most common of these characteristics are race, gender, age, sexual orientation, religion, disability, and nationality. However, any factor that is unrelated to merit might be used to discriminate against employees, including marital status, having caring responsibilities, physical appearance, health status (e.g. HIV/AIDS positive), or gender reassignment and identity. Accordingly, many organizations are now having to come to terms with the fact that their employees increasingly come from a range of different religious, racial, national, and cultural groups, making the whole issue of *managing diversity* a prominent feature of contemporary business discourse. In **Practitioner Spotlight 7** we meet María Paz Riumalló Herl, a specialist in promoting and supporting diversity and equality in the workplace, and learn about some of the challenges and skills needed in practice to do this successfully.

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> **Workplace discrimination** When decisions are made on the basis of an enduring characteristic, other than merit, that is irrelevant to the effective performance of the job in question.

Discrimination in essence is a violation of the second principle of Rawls' *Theory of Justice*, as outlined in Chapter 3, that 'social and economic inequalities are to be arranged so that they are attached to offices and positions open to all under conditions of fair equality of opportunity'. There are inequalities between individuals, but the reasons for choosing one person over another should be based on qualifications that in principle could be fulfilled by anyone. Making gender or race a criterion for a particular position would exclude certain people right from the start, and would clearly constitute an act of discrimination. However, determining whether a factor such as one's appearance, ethnic background, or marital status is related to one's job performance is sometimes not as clear as we might suppose.

Consider the example of the owner of an Indonesian supermarket in Rotterdam that is looking for a manager, who speaks Bahasa or Malay fluently, who has a reasonable understanding of Indonesian culture, and knowledge of current consumer preferences in the Dutch-Indonesian products market. Although one might reasonably consider that this would mean that it would be perfectly acceptable to advertise specifically for an Indonesian manager, this would in fact be discriminatory. Certainly, these criteria might be *most likely* met by a certain ethnic group, but it is in principle possible for *all* potential applicants to attain these qualifications, and so they should have equal opportunity to apply. In many countries, for example, it is illegal to specify a preferred gender or ethnicity for applicants for a vacant position.

Although the most overt forms of discrimination have now been addressed reasonably successfully through regulation, problems of this nature persist. For instance, the clothes retailer Abercrombie & Fitch lost a lawsuit filed by a female employee at one of its flagship stores. The 22-year-old woman, who wore an arm prosthesis that she covered by wearing a cardigan, was removed from working on the shop floor as her dress style allegedly violated the 'good looks' policy of the company. The reason she won the case, however, was not that she was treated differently but that the company did not make an exception from their policy to take account of her disability (Topping 2009).

In fact, issues of disability, as well as other concerns such as age discrimination and gender identity, are among the most recent diversity issues to come to the fore. As we saw in Ethics in Action 1.1, the challenges to overcome are complex and colleagues do not always accept their responsibilities and obligations, nor see the opportunities that can come from a policy of actively supporting workplace diversity. The first of these challenges includes some unique issues, in that the physical environment and systems of the firm itself might prove to be discriminatory for employees (or visitors) with disabilities. The failure to include lifts can impair the ability of wheelchair users to do their job; the use of hard-to-read signs and documents can negatively impact those with sight disability or dyslexia; and failure to incorporate induction loop technology can seriously impede those with hearing impairment.

In the case of age discrimination, workers both older and younger have suffered. For example, the trade union Amicus reported a number of cases in the UK where companies had laid off staff between the ages of 45 and 49 because pension rights make it far more costly to lay off workers beyond the age of 50. Some companies even run the risk of an employment tribunal,

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Table 7.3 Women in top management positions. Female directors in FTSE 100 companies 2000–2017. (FTSE 100: largest 100 companies on the Financial Times Stock Exchange Index)

	2000	2004	2008	2014	2017
Female-held directorships (in % of total directorships)	69 (5.8%)	110 (9.7%)	131 (11.7%)	231 (20.7%)	294 (27.7%)
Female executive directors	11	17	17	20	25
Female non-executive directors	60	93	114	211	269
Companies with 2 women directors	14	19	39	79	
Companies with no women directors	42	31	22	2	0

Sources: Sealy, R., Singh, V., and Vinnicombe, S. *The Female FTSE Report 2007*, International Centre for Women Leaders, Cranfield School of Management; Sealy, R., Vinnicombe, S., and Singh, V. *The Female FTSE Report 2008*, International Centre for Women Leaders, Cranfield School of Management; Vinnicombe, S., Dolder, E., and Turner, C. *The Female FTSE Board Report 2014*, International Centre for Women Leaders, Cranfield School of Management; Vinnicombe, S., Sealy, R., and Lambert A.L. The Female FTSE Report 2017, Cranfield University

PRACTITIONER SPOTLIGHT 7 Promoting equality and diversity in the workplace

Organizations are increasingly prioritizing the well-being and diversity of their workforce. But, how exactly do you embed an ethical culture? We spoke to María Paz Riumalló Herl, Executive Director of the Work and Family Research Centre at ESE Business School in Santiago, Chile, around how she works with organizations to promote work and family balance.

Can you broadly describe your current role? I am the Executive Director of the Work and Family Research in ESE Business School of Universidad de los Andes in Santiago, Chile. We develop educational programmes for business executives and, through them, try to influence the business environment in Chile. Our central focus is on promoting organizational cultures that support work and family balance, responsible leadership, flexible and rewarding work environments, and the professional advancement of women. We also run a Business Club with 23 companies, at the time, on the topic of Family Corporate Responsibility (FCR) that aims to develop organizational cultures focused on people and leadership skills that facilitate the integration of work, family, and personal life. We work side-by-side with companies and policymakers to encourage a more balanced society.

What has been your career path to date? I studied Business Administration in Universidad de los Andes (a private catholic university in Santiago, Chile). From here, I worked in a financial company that traded mutual funds, stocks, etc., but the ethical dilemmas of this role were always present for me. I stayed there for three years, and then came to the ESE Business School where I have been for 12 years. I started as a research assistant, then pursued an EMBA, before I became the Executive Director of the centre.

One of the topics that I enjoyed very much during these years was the idea of work–family conflict as it connected with me on a personal level. I have four children and it became very clear how important it is for organizations to help their workers integrate life and family. For me, work is a very important dimension of my life, it gives me economic stability, but it also allows me to develop personally and professionally. At the same time, my family is my most important life project. To be forced to choose between these would be terrible.

What practical skills are needed to do your job? I would list some of the key skills that help me to succeed at my job (at home and work) as follows:

Time management: as a working mother of four, when I am at work I focus on work and when I am at home my focus is there.

Leadership: as director of the research centre, I need to be a leader that promotes work–life flexibility. I can't teach something that I don't promote in reality.

Communication: to be seen as an authority on matters of FCR we need to publish a lot, to appear in media, to share our findings with companies, etc.

Empathy: for teammates, co-workers, family, and all. Our objective is to promote a focus on people and for that it is very important to be genuinely interested in others.

What are the key benefits and challenges of your role? We face ethical dilemmas constantly. The easiest ones are those where issues are black or white, but in reality most of them are in different shades of grey. At the centre, we promote organizational cultures that are focused on people, but this can be tough as executives are largely trained to focus on results. We teach that although the first ethical responsibility of a company is to earn money and be sustainable, it is also necessary to know that workers have a life of their own. Managers need to create environments that don't make workers choose between work and family, but to see workers as a 'whole'. Work decisions do not only affect employees, but also their families. For instance, the CEO of a company with 200 workers impacts the lives of more than 800 people (200 plus their families).

If you could change one big world issue, what would it be? Ahhh this is hard! I think it is necessary for people to go back to the simple things, to enjoy their lives and to value people as people; to see them like equals. It appears to me that people have become less empathic, more individualistic, and more focused on material possessions. By acknowledging others' importance, we may be able to work towards some of the biggest problems we are facing as humanity: poverty, climate change, racism, economic inequality, apathy, wars, etc.

SOURCES

https://www.ese.cl/ctf.

https://www.ese.cl.

Visit the online resources for more Practitioner Spotlight interviews.

given that the fine for unfair dismissal can be considerably cheaper than paying redundancies for older workers (Wylie and Ball 2006).

Board diversity is a common focus of media and research attention. In the US, ethnic and racial minorities make up only 10% of corporate directors despite representing 35% of the population, while these minorities occupy only 3.4% of board seats in Canada despite representing over 19% of the population (Dhir 2015). Women are also under-represented in top management positions, despite some success lower down the ranks and often outperforming men educationally. **Table 7.3** sets out some statistics from the UK of the proportion of women on boards. This demonstrates that, although women are still under-represented (with 28% of board seats), progress is slowly being made in tackling discrimination in the boardroom. However, this picture varies dramatically across different countries, with France a leading example with 40% of boardroom seats held by women, compared to 22% in the US, 21% in Germany, 14% in India, and 5% in Japan (as of 2017). Notably, quotas which are becoming a regular feature in Europe look to have a substantial positive effect on these numbers.[4]

While board diversity receives a lot of attention in the media and in published research, the problem of gender diversity is much greater than this tiny arena of the whole workplace. Quite apart from access to particular roles or jobs, the issue of the gender pay gap continues to reflect serious discrimination. In Western Australia, for example, according to the workplace gender equality agency, men in full-time employment earnt on average almost 23% more than women, with the difference nationwide in the financial services sector being 30%.[5] Reasons for this are a subject for debate, but as **Figure 7.1** shows, they include issues both in the workplace and the home. It is clear that the gender pay gap cannot be resolved by women alone. You may want to take a look around your class and think about how you will feel if you are in a business in the future where the men consistently earn more than the women for comparable jobs.

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Figure 7.1 Reasons for the pay differences between men and women

1. Discrimination and bias in hiring and pay decision
2. Women and men working in different industries and different jobs, with female-dominated industries and jobs attracting lower wages
3. Women's disproportionate share of unpaid caring and domestic work
4. Lack of workplace flexibility to accommodate caring and other responsibilities, especially in senior roles
5. Women's greater time out of the workforce impacting career progression and opportunities

Source: Australian Gender Equality Agency, https://www.wgea.gov.au/sites/default/files/gender-pay-gap-statistics.pdf

Managers experience a still greater gender pay gap than workers, and perhaps for this reason attention has tended to be focused on them, but like members of corporate boards, they are by definition high achievers and usually privileged themselves. The lived experience of women workers across the globe isn't captured by this subset of society of corporate managers and board members, important as they are in business terms (Grosser, McCarthy, and Kilgour 2016). The point is that, despite decades of anti-discrimination legislation, many forms of discrimination are deeply embedded across all forms of business, and continue to be so. Sometimes this is referred to as *institutional discrimination*, namely that the very culture of the organization is prejudiced against certain groups.

For example, one could suggest that in a company where there was an informal understanding among the staff that, in order to get on, they had to stay late at the office and work far in excess of 'normal' office hours, certain groups, such as single parents or carers for elderly parents (who might be unable to commit such time over and above their contractual obligations), would face an institutionalized barrier to progression. Goldman Sachs, for example, faced a class action lawsuit that included all female employees from the preceding 12 years because of alleged systematic gender discrimination (Kolhatkar 2014).

Gender identity has also caused a great deal of difficulty for those personally concerned and new challenges for the organizations they work for. Take Chelsea Manning (as mentioned in Ethics on Screen 2), for instance, a former United States army soldier who was at the time known as Bradley Manning, and kept sexuality and transgender identity secrets from the employer under the since-rescinded 'don't ask, don't tell (about your sexuality)' convention of the US military. Manning was convicted in 2013 by court-martial of violations of the Espionage Act, due to involvement in the notorious release of sensitive military and diplomatic information known as the Wikileaks scandal. The day after conviction, Manning declared that she identified as a woman. Irrespective of the rights or wrongs of Manning's acts in relation to Wikileaks, the focus on her gender transition, the initial failure of the Court to shift from a male to a female pronoun, the quandary of which toilet facilities she should use, the gender of her accompanying prison officers, whether to incarcerate her in a male or female prison, plus her request to undergo transgender reassignment surgery while serving her sentence were an additional discriminatory challenge. Manning, the Government, the army, the judicial system, the media, and the prison service had to navigate these questions with varying degrees of dignity and success.

Such an example illustrates that organizations cannot avoid dealing with moral issues of the most personal and private nature of those who work for them or are in some other way in their care—they are in the front line of emerging worker rights issues and challenges, whether they embrace it or not. In the rather eloquent words of Manning (2014) herself: 'A doctor, a judge, or a piece of paper shouldn't have the power to tell someone who he or she is. We should all have the absolute and inalienable right to define ourselves, in our own terms and in our own languages, and to be able to express our identity and perspectives without fear of consequences and retribution. We should all be able to live as human beings—and to be recognized as such by the societies we live in'.

THINK THEORY

Although we have suggested that employees have a *right* to be free from discrimination, it is clear that it still occurs. Is this just because employers have not recognized that discrimination is wrong, or is it possible to establish a defence of discrimination from the perspective of other ethical theories? Which theory provides the most convincing defence of *discrimination*?

Visit the online resources for a suggested response.

Sexual and racial harassment

As well as discrimination occurring in the areas of promotion, pay, and job opportunities, diversity considerations also have to take account of physical, verbal, and emotional harassment. In the case of sexual harassment, a problem might even be that certain sexual favours are requested for promotion or other rewards that would normally be a result of successful work. There have been times and places where banter has been arguably considered within the bounds of acceptability and something which the victim is expected to accept and endure. Comedy television or stand-up performers can offer a good indicator. Think about famous comedians from your home country who were popular in your parents' generation—is their humour still considered acceptable now? Often sexist and racist jokes, jibes about suspected sexual orientation, and so on, which used to be considered comedy, just aren't funny anymore—perhaps they never were. This begs the question of who gets to judge what is seen as acceptable in current comedy circuits, or indeed in different cultures or communities, which will be deemed offensive in other places or times.

What constitutes harassment is a more serious debate still and abuse of power positions in work environments has always been a problem. What used to happen behind closed doors has come out into the open somewhat, where communication crosses over into social media and other online communications such as Instagram, Snapchat, Facebook posts, or text messages (Mainiero and Jones 2013). Essentially, workplace harassment is a form of bullying and intimidation, and a psychological construct that occurs when it is unwanted, and appraised by the recipient as offensive or threatening, rather than meeting any specific objective criteria (McDonald 2012). However, legal definitions tend to focus on whether harassment creates a 'hostile work environment' or takes place in a context of threats involving employment-related decisions such as pay, promotion, and termination (Mainiero and Jones 2013). Research consistently demonstrates that individuals who experience workplace harassment often do not make formal complaints despite suffering 'significant psychological, health- and job-related consequences' (McDonald 2012: 1).

This repression of speaking up against harassment was illustrated in 2017 when there was the start of a wave of accusations of years-old abuse against powerful figures in Hollywood. Hugely influential film producer Harvey Weinstein, who was in a position to make or break careers, was arguably the starting point for this wave of accusations of historical and systematic sexual abuse of actors among others, but many, many more were also in the frame. Some lost their positions of power as a result. *House of Cards* star Kevin Spacey was replaced in a film he was already filming, and Weinstein was disowned by the great and the good, including former US President Barack Obama. These cases came to light because the abused, usually women, felt enabled to admit to things which had happened to them through solidarity and a belief that they might, now, be heard. This was supported by very widespread #metoo and #timesup social media campaigns, wherein millions of people who had experienced such abuse used the hashtags and called for change.

A culture of misogyny takes a long time to change and this period is not likely to miraculously transform Hollywood or other environments where sexual abuse is commonplace—not least when the US President at the time, Donald Trump, was caught in an audio clip published by the *Washington Post* in 2016, in which he claims (bragging to another man) to have sexually abused women. It is also important to note that most workplaces are not like Hollywood, and would not receive the publicity that was achieved in 2017 and 2018, and the victims are not usually the relatively wealthy, privileged women that characterize the Hollywood case. More noteworthy still in many ways is the case of Dominique Strauss-Kahn, former head of the International Monetary Fund, who was accused by chambermaid Nafissatou Diallo (concluding in an out-of-court settlement) and later journalist Tristane Banon of sexual abuse, and accusations around involvement in aggravated pimping. In the end, none of these accusations have resulted in a conviction and, six years after the first incident came to light, Strauss-Kahn was appearing again on the political stage in France. It remains to be seen what the longer-term effects are of the greater visibility of the misuse of power through sexual harassment and abuse in Hollywood and the rest of business culture.

To support cultural change, systems, structures, processes, and safeguards need to be improved to leave lasting change. We reflect on some of these next.

Equal opportunities and affirmative action

So how should organizations respond to problems of unfair discrimination? In one sense, they could simply look to legislation to tackle the problem, particularly as many industrialized countries have a reasonably well-established legal framework of anti-discriminatory laws and statutes. However, as we have already seen, even the existence of clear laws has not prevented discrimination from occurring. Moreover, most legal approaches do not specify exactly how discrimination should be avoided, leaving many decisions open to the discretion of management. As a result, some companies have sought to tackle discrimination through the introduction of so-called equal opportunity or affirmative action programmes. These programmes establish policies and procedures that aim to avoid discrimination, and may even go so far as to attempt to redress inequity in the workforce.

The most basic and conservative approach is usually referred to as an *equal opportunity programme*. These have been widely introduced in business, and it is now common to see job adverts and company websites proclaiming that an organization is an 'equal opportunity employer'. Of course, many countries legally require that companies are equal opportunity employers, but the label is usually intended to signify that the organization has gone beyond the normal expectations.

Equal opportunity programmes mainly involve the introduction of procedures that ensure that employees and prospective employees are dealt with equally and fairly. For example, one way of ensuring equal opportunity to jobs is by advertising them in such a way that all potential applicants can reasonably learn of the vacancy and apply—as opposed to, say, simply selecting someone through informal channels. Similarly, by setting out specific criteria for jobs, and ensuring that interview panels use structured assessment of candidates against those criteria, factors unrelated to the job such as gender or race can be excluded from the formal appraisal of candidates. As such, equal opportunities programmes are generally targeted at ensuring that *procedural justice* is promoted, i.e. the key issue is ensuring that the procedures are fair to all.

Some equal opportunities programmes go further than merely introducing non-discriminatory procedures. Often referred to as *affirmative action* (AA) programmes, these approaches deliberately attempt to target those who might be currently under-represented in the workforce, for instance by trying to increase the proportion of women, people with disabilities, or racial minorities in senior management positions. Four main areas of AA can be distinguished (De George 1999: 431–5), as shown in **Table 7.4**.

Table 7.4 Areas of affirmative action

	Elements	Examples
Recruitment policies	Actively recruit under-represented groups. Requires seeking new ways of reaching target audience and enabling them to apply effectively.	Labour party in the UK established women-only shortlists to represent the party in political elections in a given region.
Fair job criteria	Construct job criteria that are genuinely open to all.	Increase accessibility to non-local candidates. Don't limit required qualifications to local versions. Identify equivalent levels or entry tests to suit immigrant workers.
Training programmes for discriminated minorities	Where there may be some discrepancy between the under-represented group and the possibility of meeting the criteria, additional training may be offered.	Language and/or conversion qualifications can be offered, e.g. ethnic Algerians might be accepted by a French Grande Ecole (elite university), but in practice, they rarely have that opportunity. Targeted pre-recruitment training programmes may help to address this imbalance.
Promotion to senior positions	Seek opportunities to promote under-represented people to senior management and corporate boards.	Dedicated leadership programmes focused on supporting the promotion of under-represented groups to senior positions.

Source: De George (1999: 431–5)

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Reverse discrimination

AA targets the remediation of long-standing discriminatory tendencies in the workplace: people of a certain gender, sexual orientation, or ethnic background become the subject of policies or regulations that provide supposedly fairer conditions for these groups. In many cases, this does not simply intend to provide equal opportunities for these groups, but AA in many cases focuses on the correcting of past injustices by, for instance, attempting to enhance the percentage of women in executive positions. One of the best-known examples of this approach in recent years has been the Black Economic Empowerment (BEE) laws in South Africa that seek to install a fairer representation of black workers after apartheid (Juggernath et al. 2013). However, one common side-effect of such robust attempts at AA is that at some point AA can itself be deemed discriminatory because it disadvantages those thought to already be in an 'advantaged' position. In some countries, it is deemed acceptable to 'tip the scales' to favour under-represented groups if candidates are thought to be equal on all other criteria. For example, if you are a white, Canadian man applying for a job in a Canadian university, the advertisement might inform you that in the case of equal qualification, a female aboriginal or racial minority applicant will be preferred.

This situation is taken a step further if minorities are preferred to mainstream candidates when the minority candidate is *less qualified* for the job or promotion. For instance, some countries allow for certain jobs to be subject to quotas that specify that a proportion of a certain minority group must be selected for interview, or even for the job itself, regardless of whether they are less qualified than over-represented groups. Norway, for example, requires that 40% of board positions are reserved for women, which explains its significantly higher female representation than other countries, although similar gender quotas have subsequently been introduced in Belgium, Iceland, Italy, the Netherlands, and Spain.[6] In these cases, non-minorities experience *reverse discrimination* exactly because AA policies prefer certain minorities.

The justification of 'reverse discrimination' is somewhat ambiguous. On the one hand, companies could argue that women or ethnic minorities have been discriminated against for such a long time and are so badly under-represented that it is time to reverse this development, and consequently they deserve preferential treatment. This argument could be based on the notion of *retributive justice*—i.e. that past injustices have to be 'paid for'. On the other hand, there is the problem that the individual applicant, say, a white male, is not personally responsible for the misconduct of his race or gender on previous occasions, but pays an individual price to benefit those who have been systematically discriminated against previously.

More defensible are arguments based on *distributive justice*—i.e. that rewards such as job and pay should be allocated fairly among all groups (Beauchamp 1997). These arguments tend to be underlined by the observation that many male executives have been promoted not necessarily because of their objective qualifications but because of their membership in 'old boy's networks' or similar groups. Even objective 'merit' can be difficult to determine when certain roles and industries have been dominated for so long by certain genders or races. Women and racial minorities, it might be argued, require role models in professions they have been excluded from (some argue 'if you can't see it, you can't be it'), and those professions in turn might need to acquire new ideas about what a 'normal' professional would look or sound like. How many of us, for instance, automatically assume that a company director will be a white man in his fifties or sixties, rather than, say, a younger black woman? For most advocates of reverse discrimination, then, cultural arguments such as these suggest that fair outcomes rather than fair procedures should be paramount.

Opponents of reverse discrimination tend to marshal a number of fairly compelling arguments criticizing the practice, not least the basic notion that discrimination is wrong per se and that procedural justice should be paramount. Moreover, it can be argued that, if not handled carefully and with suitable support and training, someone promoted on the basis of their gender or ethnicity or disability rather than merit may serve to promote stereotyping and reinforce existing prejudices. For reasons such as these, stronger forms of reverse discrimination tend to be illegal in many countries. For example, while it may be acceptable for companies to have 'targets' or 'aims' relating to how many women or minorities they would like in certain roles or levels, they may be prevented from having an explicit quota that has to be fulfilled.

Ultimately then, addressing discrimination in all of its forms and with all of its side-effects has become a key new area of management, which increasingly is referred to as managing diversity (Barak 2013; Kirton and Greene 2010). Rather than discriminating on the basis of gender, race, ethnicity, or sexual orientation, the notion of diversity is driven by the ethical values of fairness and justice and focused on embracing difference as a potential strength. That is, diversity management is often driven by the enlightened self-interest of corporations that understand that diverse organizations can tap into a richer pool of knowledge and experience among its workforce—which can make a company more productive and more attractive to different customers. In the global context, it is important to understand that any particular emphasis on diversity management differs significantly from place to place: while, for instance, in India religion might be a challenge for managing diversity (Rao 2012), in the US the inclusion of diverse sexual identities appears to be one of the main contemporary challenges (Bell et al. 2011), as discussed with the case of Chelsea Manning. This is particularly challenging for multinational companies, since they have to calibrate a universal commitment to diversity in close consideration of local circumstances.

EMPLOYEE PRIVACY

The escalation in health, drug, alcohol, and even genetic testing of employees, coupled with the possibilities for more and better surveillance through advances in information and communication technologies (West and Bowman 2015), has meant that employee privacy—i.e. a worker's ability to control information about them and how it is used and shared—has never been so much under threat.

Employee privacy An individual employee's ability to control information about themself, and the circumstances under which that information is shared inside and outside the workplace.

The fundamental right to privacy consists of an individual's entitlement to control information about themself, and to control situations where such information could be gleaned (Cranford 1998). **Table 7.5** introduces four types of privacy.

Obviously, not all social interactions or information about ourselves can be deemed private. Employers have a right to know about our qualifications and work experience, just as they have a right to know if we have had a meeting with one of the company's clients. The key issue is whether certain aspects of our life are *relevant* to the relationship we have with our employer. Let us take a look at this question in the main areas where employee privacy appears to be challenged.

Table 7.5 Types of individual privacy

Types of individual privacy	Explanation	Example
Physical	Physical inaccessibility to others and the right to 'one's own space'.	Organizations that place surveillance cameras in employees' private rest areas might be said to compromise physical privacy.
Social	Freedom to behave in our private life in whichever way we choose.	Some employers will threaten social privacy by suggesting that employees should not bring their firm into disrepute by behaving in an 'unacceptable', 'immoral', or illegal way during their social lives.
Informational	Determining how, when, and to what extent private data about us are released to others.	This can be breached, for example, when employers hire private security firms to investigate employees without due cause, or when employees' social media use outside the workplace is monitored by their employers (West and Bowman 2015).
Psychological	Controlling emotional and cognitive inputs and outputs, and not being compelled to share private thoughts and feelings.	When retailers introduce programmes aimed at making sure employers smile and appear happy in front of customers. Cathay Pacific Airways flight attendants, for example, threatened 'work-to-rule' industrial action that would include 'not smiling at passengers'.[7]

Source: Developed from Simms (1994)

Health and drug testing

Health and drug testing is quite a contested issue in business ethics. The central objection is that such tests make available far more information on the employee than the employer actually needs. Des Jardins and Duska (1997) highlight three main aspects here, as being: whether there is the potential to do harm without the test; whether the tested-for element may influence worker performance (e.g. alcohol consumption for a lorry driver); and finally, Des Jardins and Duska claim that an employer is only entitled to an *acceptable* level of performance from their employees, not their *optimal* performance. Most drug, alcohol, and health tests aim to identify factors that potentially might prevent the employee from functioning in the most optimal fashion. The key issue is whether we are performing at an acceptable level in the first place, not whether we could be made to perform better.

Despite these criticisms, such tests have become increasingly common in the modern workplace, though more so in the US than other countries. The particular cultural context of the US may help to explain this; in particular, the strong legalistic approach that makes employers vulnerable to litigation from customers and others employees if members of staff are found to have put them at risk when unfit for work due to sickness, drugs, or alcohol. However, testing programmes have been on the rise in Europe, Asia, and Australasia, occasioned perhaps by the global spread of US business practices (Eaglesham 2000). Nonetheless, despite these developments, probably the biggest threat to employee privacy at present comes from the increasing use of electronic surveillance and the blurred line between personal and professional life that social media presence facilitates.

Electronic privacy and data protection

Surveillance and control of workers has a long legacy in management practice. However, the rise of electronic communication, social media, the internet, and, in general, the escalation in usage of new technologies in business and privately has added a new dimension to the issue of privacy (West and Bowman 2015).

First, there is the fact that the computer as a work tool enables constant, highly detailed forms of surveillance. This means that the employer is not only in a position to judge the result of the employee's work, but they can also trace in every detail the process of its coming into existence. Similarly, many 'eavesdropping employers' routinely place cameras and other recording devices in work areas to monitor employees (Ciocchetti 2011). While this might be justified to assess performance or to prevent thefts and other misdemeanours, it is clearly an entry into the physical privacy of employees, particularly when it intrudes on ostensibly private areas such as changing rooms, bathrooms, and staffrooms. It remains a highly contested issue as to how far this breach of privacy is legitimate.

This control also extends to the usage of employees' time for private reasons, such as when using email, the internet, or social media. This includes fairly straightforward issues such as the downloading of pornography, but also extends to all sorts of other usage of communication technologies for private purposes. Should companies be allowed to monitor and check their employees' email or their private conversations on the phone? Most companies have established codes of conduct that at least provide the employee with some knowledge of the boundaries to privacy established by the firm. However, globally, there are different standards in legislation that determine the extent to which privacy could be restricted in these areas.

While the abuse of company time is a perfectly legitimate complaint of companies, we might ask whether policing to prevent or identify such an abuse legitimates such a far-reaching incursion into workers' privacy. As with drug and alcohol tests, the invasion of privacy here is often based on the threat of *potential* harm to the company rather than *actual* harm. However, the harm to both employees and the firm itself can be very real when implementing such extensive surveillance (West and Bowman 2015). The tension between monitoring in the workplace and employee privacy came in to sharp relief for the employees of Sony Pictures Limited in 2014. According to Chory, Vela, and Avtgis (2016: 23), a cyberattack 'which gathered employees' personal information (e.g., Social Security numbers), work information (e.g., disciplinary actions), and personal emails' were published online. This, they argue, made the employees susceptible to identity theft, embarrassment, and career damage. Damaged was not limited to employees lower down the organization; Sony executives' emails, which contained some racist comments, were published, as were some previously unreleased films. Employees and the company itself were embroiled in a web of privacy, security, economic, and legal challenges, not to mention a public relations and human resource management disaster.

Finally, as in the instance of Sony, the issue of privacy is exacerbated in situations where data is saved and processed electronically (Chory, Vela, and Avtgis 2016). The relationship between an employee and the company's doctor is one of privacy, and if the doctor enters the data of the employee into their computer system, this is not a breach of patient–doctor confidentiality. But as soon as this database is linked with the company's other systems, the employee's privacy will clearly be broken. The problem occurs where, for instance, the phone company is taken over by a credit card company and both clients' databases are matched: such an operation suddenly provides access to a wide range of information, posing a far more potent breach of privacy. This issue is exacerbated by social networking sites, such as Facebook (with a breath-taking 2 billion users in 2017), Instagram, YouTube, Twitter, Snapchat, Renren, and Weibo, where the lines between private and public data are often ambiguous. **Ethical Dilemma 7** provides an opportunity to explore how this can pose an ethical problem for many current and future employees.

ETHICAL DILEMMA 7 Off your face on Facebook?

You are the human resource manager of AllCure Pharmaceuticals. It is a busy time and the people in the product approval department have called you because they desperately need to hire a new team member to assist them with the clinical trials of what could become the next blockbuster drug for the company. You get started and within a week you have managed to get three well-qualified applicants for the job. The interviews went well and there are two really good applicants. Both are women, recent university graduates, and you find it hard to decide between them.

The clinical trials that the new hire will work on are very important. They require a very reliable, meticulous work attitude, but also good social skills to manage the different relations between the clinics, the approving authorities, and various departments in the company. A colleague suggests you check the two finalists out on various social media and networking sites to see how suitable they seem. Later in the day, you login to Facebook, and yes, one of them is there. Surfing through her posts and photos you see a very sociable, obviously well-travelled individual.

The other candidate is a bit more difficult to locate. This is too bad, as she already has some work experience and on paper is the slightly better candidate of the two. Her details are only available to friends, but browsing through her list of some 800 friends, you find that one of your current interns is actually on her list. You call in your intern, who it turns out briefly met this second candidate on a course they took together at University a few years ago, and together you take a look at the 'private' Facebook page of the second candidate. Doing so, you make some interesting discoveries: not only do you find a number of photos of her taking her shirt off at parties, but there are plenty of pictures of her apparently engaged in heavy alcohol use and even two pictures where she is undoubtedly taking illegal drugs.

You thank your intern for her help and sit back in your chair wondering what to do. You are worried about hiring someone who is too much into partying, and possibly even illegal activity, especially for a job that requires sensitive and conscientious work. Plus, you can just imagine what the reaction of patients, co-workers, or even more importantly, the officials at the regulating bodies might say if the pictures became public. 'Hey, have you heard about the AllCure girl' you can imagine them saying, 'you really have to see these pictures . . .'.

QUESTIONS

1. What are the main ethical issues in this case?
2. What are the main ethical arguments for and against the use of social media sites for potential employers in this situation?
3. Think of how you use Facebook, Instagram, Twitter, or other social media. Does this case influence the way you might use these in the future?
4. Is there a gendered aspect to this story? Would your thinking change if the gender of any of the characters are different?
5. How would you finally decide as the human resource manager in this situation?

SOURCE

Based on Du, W. 2007. Job candidates getting tripped up by Facebook. 14 August 2007: http://www.msnbc.msn.com/id/20202935/from/ET.

With advances in information and communication technologies accelerating at an unprecedented rate, we might expect threats to privacy such as these to intensify. However, legislation is often relatively slow to catch up with these changes, and norms and etiquette around new technology use also emerge slowly. In a work context, we might at the very least question whether 'spying' on employees is counterproductive to fostering trust and integrity in the workplace.

THINK THEORY

Think about electronic surveillance in terms of utilitarianism. What are the costs and benefits involved? Is this likely to offer a reasonable justification for incursions into employee privacy? Does this extend to other workers in the organization who don't have an employment contract? What about other organizational stakeholders such as students at a university?

Visit the online resources for a suggested response.

DUE PROCESS AND LAY-OFFS

As anyone who has ever had casual work in kitchens, bars, and restaurants will know, many employees are constantly at risk of arbitrarily losing their jobs for relatively minor indiscretions, personality clashes, or simply because their face 'does not fit'. The right to due process, though, has a long history in working practices and can be deduced from the notion of procedural justice. As we saw with discrimination, this form of justice requires the application of rules and procedures to people in a consistent and even-handed way, avoiding arbitrary decision-making, and without discrimination on bases other than merit (Chryssides and Kaler 1996: 45). Promotion, disciplinary proceedings, and firing are the most common processes where the right to due process is particularly important. Here also we are reminded of the sense in which workers are understood as resources in the organization, whose contribution may be reduced in the same way as other inputs to the business, but with enormous effect on the worker's financial circumstances, identity, self-esteem, and the knock-on effect for any dependents.

The case of firing and redundancies is especially challenging in this respect, most notably because firms often downsize to remain competitive and increase shareholder value (Jung 2015). In many countries, the legal framework provides some codification of employee and employer rights in these circumstances—but even where they do, some industries and countries tend not to respect these as fully as others. Therefore, a number of ethical considerations arise in the process of downsizing (see Hopkins and Hopkins 1999).

- **Involvement.** A first important area is the information policy of the corporation. It can be argued that employees have a *right to know* well ahead of the actual point of redundancy that their job is on the line. This issue of timing is closely connected to the method of announcement. Unless there are legal constraints, as in some European countries, many employees only learn about being laid off when it is already a fait accompli. Furthermore, it is sometimes contended that employees also have a right to know about the causes for the downsizing, as this will provide them with the possibility of judging the fairness of the process.

- **Remuneration.** A second important area is the compensation package of redundancy payments and other benefits employees receive when laid off. These typically should include enough money to bridge the time necessary for finding a new job. Some firms tend to have quite a generous approach to these issues, and many also provide social schemes for redundant workers including early retirement options for those workers whose chances of finding another job are lower due to advanced age.

With increasing moves towards restructuring and flexibilization, however, the needs of employees in lay-off situations have moved beyond merely involvement and remuneration to retraining and re-integration into the workforce. Over the past decades, many employees have increasingly been exposed to the need for *occupational transitions*—i.e. having to find work in completely new industries rather than just switching employers. This has obviously meant that employees have experienced escalating insecurity, while also facing greater challenges in developing their employability (Kieselbach and Mader 2002).

Such developments have potentially raised new expectations on corporations, particularly in respect to developing 'outplacement' strategies to help employees find work following lay-offs. In the Netherlands, for example, most companies offer employability training, and restructuring is often supported with career counselling; in Belgium and Italy, companies are legally obliged to offer outplacement counselling in the case of lay-offs (Kieselbach and Mader 2002). Although in other countries, such as Spain and the UK, employment is primarily regarded as an individual or governmental responsibility, there is clearly a case for suggesting that some form of outplacement process might be a 'fairer' approach to lay-offs.

THINK THEORY

Think about outplacement strategies from the perspective of justice and fairness. See if you can set outplacement in the context of Rawls' theory of justice.

Visit the online resources for a suggested response.

EMPLOYEE PARTICIPATION AND ASSOCIATION

The recognition that employees might be more than just human 'resources' in the production process has also given rise to the claim that employees should have a certain degree of influence on their tasks, their job environments, and their company's goals—i.e. a right to **employee participation**. There are a number of ethical justifications for this claim (see Claydon 2000). Aside from references to human rights, some grounding can be derived from Kant's thinking. Specifically, participation implies that people are not treated only as a means to another's end. Employees have their own goals and their own view of which ends should be served, and so they have some rights to determine the modalities of their involvement in the corporation. Other justifications can be based on egoism, namely that an employee can only freely pursue their own interests or desires with some degree of participation in the workplace.

Employee participation Practices that give employees some influence in how the workplace is organized, managed, and governed.

Questions over the right to participation are controversial, though, not least because such a right often clashes with management's duty to determine how best to protect the interests of owners. However, the key issue at a practical level now is not so much whether employees should have a right to participate in decisions, but rather to what degree this should take place. There are two main areas to which a right to participation extends.

Financial participation allows employees a share in the ownership or income of the corporation. Initiatives predicated on partly remunerating executives with stocks or stock options in order to align incentives with shareholders, as discussed in Chapter 6, have looked to work in this direction. However, many start-ups, especially in the technology industry, have also offered equity in their firms to a wide range of employees at different seniorities since it involves no upfront cash outlay (which is particularly attractive for new firms) but can provide a substantial incentive to talented employees who might otherwise be out of the firm's pay range. Successful Silicon Valley technology companies have, over the years, made legions of engineers rich, a feat replicated by the Chinese e-commerce giant Alibaba when it went public, creating thousands of millionaires among its current and former employees, from executives to receptionists (Jacobs and Gough 2014).

Operational participation occurs at a more practical level and can include a number of different dimensions:

- **Delegation.** Employees can be delegated control over a range of decisions relevant to their jobs. Efforts of this kind have often been labelled as 'job enrichment' or 'job enlargement' schemes and have been practised successfully, for instance, in the automotive industry. Several European companies, such as Volvo and Porsche, have in part stopped their line production and reorganized their workforce in semi-autonomous teams. In this way, many decisions about how to actually manufacture a car have been taken away from the formal control of managers and put into the sphere of the individual employee (Woywode 2002).
- **Information.** Employees can also participate by receiving information about crucial decisions that have an effect on their work. This especially concerns information about the performance of the corporation, the security of jobs and pensions, etc. This form of participation is, in many respects, wider than just participation through delegation since it may also pertain to issues that are not directly necessary for the fulfilment of the employee's own immediate task.
- **Consultation.** In some contexts, employees may have the opportunity to express their views on potential decisions planned by the employer. This form of participation is stronger still, since it opens up the opportunity to actually influence the decision taken by the employer.
- **Co-determination.** Here employees have a full and codified right to determine major decisions in the company. This is the strongest form of participation and would include decisions about the strategic future of the corporation, such as mergers or diversification into new markets (Ferner and Hyman 1998).

In a global context, there is still quite some variety with regard to the degree of participation allocated to employees. Whereas employees in the US, for instance, mostly find out online or through the grapevine if their jobs are on the line, Swedish or French companies usually cannot take measures regarding redundancies without detailed communication, consultation, and agreement with employees. In many such countries there is an extensive body of legislation that focuses on the representation of the workforce. Consequently, employees do not practise many of these participatory rights directly, but through their representatives in works councils, trade unions, or other bodies.

Given the important role for works councils and trade unions in facilitating the right to participation, we must also consider here the underlying question of whether employees have a 'right' to join together in such organizations. This is usually framed in terms of a *right to association*. The crucial factor here is that, without a right to associate, employees often lack an effective form of representation of their interests to employers, leaving them in a far weaker position than management in bargaining over pay and conditions. Still, even where rights to associate are legally protected, companies may seek to obstruct or avoid them. For example, Royle (2005) vividly illustrates how, in the fast-food industry, companies with a strong 'anti-union' stance, such as McDonald's, have been able to tame, neutralize, or subvert systems of employee representation, especially at a workplace level. In Germany, for instance, he argues that the company has 'been fighting the establishment of German work's councils for over 30 years' (p. 48). **Table 7.6** provides an overview of how membership in trade unions has developed over the last four decades. The figures not only reflect different legal frameworks and traditions in industrial relations—for example, if we compare the US to Canada, Finland, or Australia—but also shows that the general trend in union membership is on the decline in most countries.

Despite this decline in the membership of unions, the underlying rights to participate and associate still remain crucial issues for corporations, especially when moving to countries with different legislative frameworks. Participation has also been identified as a means to enhance worker efficiency, especially when jobs ask for flexibility and creativity on behalf of the employee (Collier and Esteban 1999). Ultimately, though, the rights to participation and association within a company follow a similar line of argument to that concerning participation of citizens in the political process (Ellerman 1999). Corporations have power over one of the

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Table 7.6 Union density (percentage of union members as a proportion of the total workforce) in selected countries

	Union density in % 1980	Union density in % 2016	Change in union density in % 1980–2016
Australia	49	14.5	−34.5
Canada	34	28.4	−5.6
Finland	69	64.6	−4.4
Germany	35	17	−18
Japan	31	17.3	−13.7
United Kingdom	51	23.5	−27.5
United States	22	10.3	−11.7

Source: https://www.ilo.org

most important areas of an employee's life, namely their economic survival. Consequently, the principles of a democratic society necessarily ask for some rights to participation in the firm, usually through a representative body of some kind, such as a trade union or a works council. Trade unions, however, also play an important role in other employee rights, including those of due process, fair wages, and as we shall now see, working conditions (Preuss et al. 2014).

WORKING CONDITIONS

The right to healthy and safe working conditions has been one of the very first ethical concerns for employees, right from the early part of the Industrial Revolution. Novelists such as Charles Dickens, and social reformers such as Robert Owen, who pioneered the co-operative movement, sought to shed light on the appalling conditions faced by those working in mines, factories, and mills at the time. Consequently, a considerable number of issues concerned with working conditions were initially addressed as far back as the early 19th century, either by way of legislation (such as Bismarck's social laws in Germany) or by voluntary initiatives of paternalistic, often religiously motivated entrepreneurs (Fitzgerald 1999).

Today, most industrialized countries have implemented a dense network of occupational health, safety, and environmental (OHSE) regulation that companies have to abide by. Consequently, such issues are either already regulated by existing laws or become an object of court proceedings, rather than necessarily being ethical issues that have to be resolved within the boundaries of the firm. The main issue, however, often becomes the *enforcement and implementation of existing regulation*. In practice, some companies may cut corners on health and safety through negligence or in contempt of regulators. Similarly, many of these regulations, such as wearing a safety helmet, gloves, face mask or ear plugs, may be cumbersome and disliked by workers themselves. This imposes a responsibility on employers to actually 'police' workers' compliance with regulations. A common example is the signs, typically found in the bathrooms of pubs and restaurants, which instruct members of staff to wash their hands (or 'wash your hands NOW!') after using the toilet. OHSE requirements may also become a more pressing issue in developing countries, where legal enforcement is weak, or there may not be relevant laws in place. However, many of these issues, as mentioned earlier, occur in the operations of companies' suppliers rather than their own, and as such will be discussed in more detail in Chapter 9.

However advanced protection measures and OHSE regulation might be, there will always be certain jobs that include a high risk to health and life. Working on an oil rig, doing research in nuclear technology, or working as a stunt person in action films are all inextricably linked to certain hazards. As a general rule, one could adopt the *principle of informed consent*: no worker should be exposed to risks without precise information about what those risks actually are. Consequently, any damage to the worker's health is the result of their deliberate decisions—perhaps to effectively 'trade' exposure to health risks for the higher compensation that is often linked to such jobs.

OHSE issues also become increasingly relevant in the context of new risks, most commonly in the form of *new diseases* and *new technologies*. In fact, some diseases even owe their name to the companies where they first occurred, such as 'Pseudo-Krupp', a lung disease first discovered among workers and neighbours of the German steel mill 'Krupp'. New technologies can pose a particular challenge when the health risks to workers may not be known at the time they are first introduced. For instance, when asbestos was first developed for use as a fire retardant, nobody was aware of its inherent health risks. Given that asbestosis—the debilitating, often fatal condition caused by exposure to asbestos—can take up to 20 or 30 years to surface after exposure, enormous numbers of production and installation workers handling the substance were placed at serious health risk (Treviño and Nelson 2014). The long-term health consequences of extended computer work and mobile technologies are also only now beginning to emerge. The dilemma for business lies in the fact that the more sophisticated certain technologies are, such as genetic engineering, the greater their potential benefits but also the greater their potential risks. The principle of informed consent that we mentioned earlier can only partially be applied because the very nature of those risks lies in the fact that the potential consequences, let alone their likelihood, are simply not known. Some, therefore, suggest the necessity for something more akin to the *precautionary principle* that acknowledging scientific uncertainty about many processes and impacts imposes the burden of proof of harmlessness on those introducing a technology.

WORK–LIFE BALANCE

We briefly discussed the threat of unemployment earlier. However, many workers face exactly the opposite problem, namely too much of a good thing, with the increasing incursion of working hours into their social life. This is notable equally among professionals, such as doctors or accountants, and low-paid workers in unskilled jobs, where people may have little choice but to work excessive hours in order to meet bare minimum standards of living. These problems are even more pronounced in developing countries, as with the dormitory labour system in China, where many workers from rural areas leave their families and move to work in factories and live in dormitories under pretty dismal conditions (Smith and Pun 2006).

Clearly, a 'healthy' balance between work and non-work activities—or **work–life balance**—is difficult to maintain (Kalliath and Brough 2008). Parents may face difficulty with childcare and/or hardly see their children, couples may face the delicate task of maintaining a long-distance or weekend relationship, and many employees might find that their life is completely absorbed by work, without any time or energy left to maintain or build up meaningful social relationships (Simpson 1998; Collier 2001). In the following, we will discuss two of the most pressing issues in work–life balance, namely:

- Excessive working hours and presenteeism.
- Flexible working patterns.

Work–life balance An employee's preferred ratio between work-related and non-work-related activities.

Excessive working hours and presenteeism

An increasing threat to employee health and well-being that is receiving considerable attention is excessive working hours (Zheng et al. 2015). In particular, excessive hours are thought to impact on the employee's overall state of physical and mental health. For example, one survey found that 84% of managers claimed to work in excess of their official working hours, with the average being between 50 and 60 hours a week (Simpson 2000).

'*Presenteeism*', as in the phenomenon of being at work when you should be at home due to illness or even just at rest and recreation (Cooper 1996), is a common cultural force in many organizations. The implicit assumption is that only those putting in long hours will be rewarded with career progression and other company rewards. Presenteeism appears to especially affect the middle and upper levels of management, and in particular it is likely to disadvantage women's career progression since they tend to have more care responsibilities (Simpson 1998).

A specific form of presenteeism is connected to the use of smartphones, smartwatches, tablets, and other mobile devices, which have further eroded the boundaries between working time and private time. Essentially, most professionals are, like their devices, in 'always-on' mode. However, there have been some attempts to address this through email management (de Castella 2014). Individual companies, such as Daimler, offer employees the option of deleting all emails while on holiday, and Volkswagen turns email off out of work hours. At the legislative level, in France a law that came into effect in 2017– intended to ensure fair pay, prevent burnout, and protect worker private time–requires all but small companies to identify hours when staff should not send or answer emails.

Flexible working patterns

Changes in working patterns have also led to more 'flexibility' in working arrangements. Greater flexibility can enhance opportunities for women and other disadvantaged groups, but it can also have a major downside for those marginalized from 'standard' work and working conditions. As Karen Legge suggests in **Table 7.1**, flexibility can just be another way of saying that management can do what it wants.

As we introduced at the beginning of the chapter, non-traditional or non-standard working arrangements are on the increase. The legal status of such workers on the 'periphery' of the organization is often less secure than that of those at the 'core', giving rise to the potential for poorer working conditions, increased insecurity, lower pay, exclusion from training and other employment benefits, as well as a whole raft of other possible disadvantages. 'Precarious work', as it is sometimes known, involves a shifting of risk from employers to employees and has increasingly spread from industrialized countries to Asia and elsewhere (Kalleberg and Hewison 2013).

These problems are particularly acute in low-skill service industries such as retailing, the hospitality industry, industrial cleaning, and in call centres (Cederström and Fleming 2012)—areas that have actually seen some of the greatest growth in jobs in the last decade. Such workers are often expected to work "unsocial" hours, with working hours often being unpredictable and changed at short notice. Royle (2005: 46), for instance, claims that fast-food companies in Europe commonly insist that workers clock off during quiet times and are even 'persuaded to compete in all-night cleaning 'parties'. Work intensification in such service industries is common, as are significant levels of surveillance and control. Perhaps the ultimate in flexible working patterns, though, is exemplified by some retailers that have used zero-hours contracts. If you are a student, you are more likely to be in such a contract, along with women and part-timers, than other members of the working population. These guarantee no minimum hours, no stable level of earnings, and prevent workers from planning even the basic elements of their lives. The company Sports Direct came under so much pressure for bad employment practices in 2016 that they offered all those on zero-hours contracts more conventional contractual arrangements. According to the Office for National Statistics, in 2017 in the UK, the number of people on zero-hours contracts was estimated to be about 5% of all employment contracts. In New Zealand, zero-hours contracts are illegal.[8]

Of course, there are good arguments why flexibility can boost competitiveness and provide for a strong economy (Hayman 2009), and it may work well for some who aren't able to commit to full-time or permanent work. However, the problem comes when flexibility erodes basic protections for worker rights, and/or where one group of workers on part-time, temporary, or otherwise 'flexible' contracts is treated unfairly compared with the core workforce.

The ethical problems here are quite difficult to resolve. From the individual's perspective, any demands for better work–life balance may ultimately be counterproductive to their career aspirations or even a danger to their job security. Furthermore, some jobs, especially where they involve a high level of specialized skill, are not easily reducible or sharable. Nonetheless, some companies have also discovered that employees with poor work–life balance might not be as effective in the long run, and that different work patterns might need to be encouraged. We will come back to some of the solutions when we discuss more sustainable working places later on.

FAIR PAY

As with most worker rights in this section, the right to fair pay is to some extent protected through regulation in many countries. This certainly applies to lower incomes—for example, with the establishment of a statutory minimum wage, which is by now common in many countries. However, our assessment of what is a 'fair' wage becomes more complex when we compare wage levels of those at the bottom of the organizational hierarchy with those at the top.

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The starting point for determining fair wages is the *expectations* placed on the employee and their *performance* towards goals, measured by hours worked, prior training, risks involved, responsibility for assets, meeting of targets, etc. However, jobs are valued very differently in some employment markets compared to others. Consider the market for elite football players—in 2017, Real Madrid player Cristiano Ronaldo was reportedly the best-paid soccer star, with an annual post-tax income of £19 million, followed by FC Barcelona's Lionel Messi (£18.6 m post-tax) and Carlos Tevez (Shenhua FC, £32 m pre-tax).[9] While one would certainly concede that being a professional footballer can be hard and disciplined work at times, this also applies to mining workers, who are paid a fraction of Ronaldo's salary. Similar discussions about excessive compensation for executives came up when the US president of the time suggested salary caps for CEOs of companies who had received governmental funding in the aftermath of the stock-market collapse of 2008. Athletes and CEOs are both examples where the measure for assigning compensation is related to the consequences of the employee's activities on relevant markets: if we put Ronaldo's or Messi's salary in relation to what their club earns from television and other media deals, one could potentially argue that their salary is acceptable. Similarly, some CEOs earn so much money because they get paid in relation to how the stock market values their company, and what the prevailing labour market for CEOs dictates is a 'reasonable' sum (see Chapter 6 for more discussion on the ethics of executive pay).

Conversely, looking at the bottom of the pay scale, we witness in many countries a widening debate around the notion of a 'living wage' as a yardstick for minimum wages. In Cambodia this took the form of a statutory minimum wage. However, such considerations are not confined to the developing world: we have seen a new phase in industrial action among fast-food workers across the US with attention focusing on establishing genuine living wages as a minimum

(Finnegan 2014). For instance, while fast-food workers in New York were paid \$7.25/hour (the statutory minimum wage) in 2014, it has been estimated that a full-time worker would need at least \$22.66/hour to survive in the city. The 'fight for 15' saw workers at McDonald's, Burger King, Wendy's, and other fast-food companies go on strike to try and raise the minimum wage to \$15/hour. While New York City is reaching these pay levels earlier, a commitment has been made for all fast-food workers in the state to be paid \$15/hour by 2021.

With such huge disparities evident between the top and bottom earners in society, widening attention has been paid to the problem of *income inequality*, namely the distribution of income across society from the highest to the lowest earners. Income inequality has greatly increased in most countries, irrespective of their level of development (United Nations 2005; Freeman 2011). In China, income inequality has rapidly escalated so that today the richest 10% of households earn around 60% of total income, while in the US, the share of national income going to the richest 1% of Americans has doubled from 10% to 20% since 1980.[10] For corporations, this represents something of a challenge. On the one hand, they are increasingly looking to cut labour costs (especially among the rank and file), while on the other hand, they have to compete for talent among the senior ranks of executives, and there are often few alternatives to paying the market rate. One potential solution has been for some business leaders, such as Howard Schultz of Starbucks, to raise minimum wage at his own organization and argue that others should too. Some suggest that this has also been coupled with a reduction in hours worked as new technology reduces the need.[11] Another approach has been to extend stock options so that more employees can benefit from the company's success.

Another area of increasing ethical contestation is employee benefits, most notably health insurance and pension plans, where many employees have faced substantial cuts in recent years. Consider that in 1985 almost all Fortune 100 companies in the US offered a traditional defined benefit pension plan, whereas by 2012 that number was down to just 11 companies (Geisel 2012). One main reason for this is that in times of economic downturn many companies consider their employees' pensions as a legitimate source of capital to cover other losses. In the area of healthcare, especially in countries without public healthcare, similar ethical issues have arrived. Most notably, these issues have arisen in the US or in some developing countries, where health insurance is typically paid by employers rather than guaranteed by the public welfare system. This makes employees highly dependent on the company and may easily lead to a situation where employees are willing to put up with many demands just so that they do not lose their health coverage. This represents a clear moral hazard, as we discussed in the early part of this chapter.

FREEDOM OF CONSCIENCE AND FREEDOM OF SPEECH IN THE WORKPLACE

Normally, the right to freedom of conscience and speech is guaranteed by governments, and so individuals can usually count on the government to protect these rights. However, within the boundaries of the firm, situations might also occur where these rights, especially the freedom of speech, might face certain restrictions. This is the case with regard to, for example, speaking about 'confidential' matters regarding the firm's R&D, marketing, or accounting plans that might be of interest for competitors, shareholders, or other stakeholders. In almost all cases, this restriction of the freedom of speech is unproblematic, since most rational employees would find it in their own best interest to comply with company policy, and there is little reason to suggest that most corporate decisions need to be made public.

However, there are some cases where such restrictions could be regarded as a restriction of employee's rights. Imagine, for example, that a manager asks you to take part in activities that are of contestable moral status, such as some 'creative accounting' for the organization. The problem for you is that you cannot ask third parties outside of the organization for help in this situation without risking serious embarrassment, disruption, and even possibly financial harm to your company. As we said in Chapter 4, if employees decide to inform third parties about alleged malpractice within the firm, this behaviour is normally called 'whistleblowing' (see Personal integrity). The main problem for employees with whistleblowing is the fact that it involves a considerable risk for them. As they violate the confidentiality that would normally be part of their duty of loyalty towards the firm, they put their job and thus their economic security at risk. This risk can be very high, and even if the allegations are true, the individual worker might find themselves in a critical situation until any whistleblowing activity is finally vindicated. Various regulatory efforts have been undertaken in a number of countries to secure the whistleblower's position, at least when there are issues of public interest at stake. These include efforts of self-regulation, where companies work out a code of practice for whistleblowing, up to formal regulation, such as the UK's Public Interest Disclosure at Work Act.

THE RIGHT TO WORK

Established in the Declaration of Human Rights and more recently in the European Charter of Human Rights, the right to work has been codified as a fundamental entitlement of human beings. As such, the right to work is derived from other basic human rights (De George 1999: 359–65), namely: it is linked to the *right to life*, since work normally provides the basis for subsistence; and it reflects the *right to human respect*, as the ability to create goods and services by working represents a major source of self-respect for human beings.

In the context of modern economies, however, there has been considerable debate whether a right to work automatically translates into a right to employment (van Gerwen 1994). On a macroeconomic level, one might argue that governments have the responsibility to create economic conditions that protect the right of every citizen to work. Nevertheless, governments in most capitalist economies will only be able to *directly* provide this right in the public sector, whereas most jobs are provided in the private sector where the government has, at best, an *indirect* influence on the realization of the right. So does this mean that individuals have a right to demand employment from corporations, since they are the ones who directly provide jobs?

The answer, from an ethical perspective, would be to ask if this right of the employee collides with the rights of the employer, and most notably the shareholders of the company. Employing and paying people a salary is only possible if the company is able to sell a reasonable amount of goods and services. If this condition is not fulfilled, a one-sided focus on the right to work would clearly violate the right to own property, and the right to free engagement in markets. Therefore, the right to work in a business context cannot mean that every individual has a right to be employed.

Is the right to work completely irrelevant? Certainly not; but rather than granting everybody employment, the right to work should result in the claim that every individual should be able to expect the same equal conditions in exerting this right. Consequently, the right to work mainly results in equal and fair conditions in hiring and firing.

RELEVANT DUTIES OF EMPLOYEES IN A BUSINESS CONTEXT

So far in this chapter we have focused exclusively on employee rights. However, these rights also need to be considered in the context of a set of duties that are expected of employees (van Gerwen 1994). You might wonder, therefore, why we have given so much attention to employees' rights here. In the context of business ethics, the main focus has to be on the rights of employees and other workers, as these are more endangered than the rights of employers, primarily because employees are more dependent on the employer and face a greater risk of sacrificing or bargaining away their rights in order to secure or keep a job. Consequently, even when talking about employee duties, our main focus will be the consequences of those duties for employers.

The most important duties of employees include the duty to comply with the labour contract and the duty to respect the employer's property. Among these duties are the obligations to provide an acceptable level of performance, make appropriate use of working time and company resources, and refrain from illegal activities such as fraud, theft, and embezzlement. As research in employee theft has shown, the propensity of employees to commit crimes is highly dependent on the organizational climate in the organization (Gross-Schaefer et al. 2000). This leads to an important question when discussing employees' duties: what is the employer's responsibility with regard to ensuring that employees live up to their duties? Normally these duties are codified in the employment contract and other legal frameworks. Ethically delicate issues arise when looking at how the employer will enforce these duties and monitor employee compliance. Is the employer allowed to check emails and phone calls? Should they be allowed to monitor which websites employees are accessing and what they are saying on social media? What measures are allowed to control working time and work quality? Most of these kinds of issues ultimately touch on the employee's right to privacy, which we discussed earlier on in this chapter.

There are some very specific areas where corporations are actually responsible for ensuring that their employees live up to a particular duty. This is particularly the case with the duty to comply with the law since this duty often asks for some 'help' from the side of the employer. Earlier in the chapter we mentioned the example of 'rogue traders' Kweku Adoboli of Swiss Bank UBS and Jérôme Kerviel of Société Générale. Many people argue that it is the employer's responsibility to put effective mechanisms in place that would prevent such speculative deals. Similar issues occur, for instance, in the area of bribery: winning a contract by bribes not only benefits the individual employee but ultimately the corporation as well. Consequently, corporations might, on one hand, provide a context that to some extent encourages behaviour that is of dubious legality, and on the other hand they might be expected to ensure that employees fulfil their legal obligations.

The most common tools for corporations to take up this responsibility are codes of conduct and employee training (Gordon and Miyake 2001; Somers 2001). In establishing such a code, corporations have to make sure that employees know about corporate policy with regard to the legal framework of their operations. However, such codes, and other forms of documenting and establishing policy, do not necessarily ensure that employees actually comply with their duties. From a corporate perspective, though, the main point is often to document that they have done everything they can to prevent illegality. In practice, many of these codes of conduct are more symbolic 'red tape' than they are of real substance, and have been shown to have had mixed results on the actual ethical and legal behaviour of employees (de Colle, Henriques, and Sarasvathy 2014). For further discussion on such codes and their impact, you might want to review Chapter 5 (Setting standards of ethical behaviour: designing and implementing codes of ethics).

EMPLOYING PEOPLE WORLDWIDE: THE ETHICAL CHALLENGES OF GLOBALIZATION

Globalization of business practices has had a significant impact on the question of the ethical treatment of employees. The move towards international expansion, and global supply chains, has resulted in many companies operating subsidiaries or sourcing products from 'low-wage' countries in the developing world. While the simple explanation for this is obviously the lower costs associated with production in these countries, these 'favourable' conditions for companies are often accompanied by questionable working conditions for workers: low wages, high risks for health and safety, and inhumane working conditions, just to name a few.

This, however, is part of a broader question about the universality of employee rights. Issues such as discrimination, fair treatment, acceptable working conditions, fair wages, and the necessity for freedom of speech are interpreted and made meaningful in different ways in different cultures. For example, a conception of racial, sexual, or religious discrimination in Iceland might be different from that in Italy, India, Israel, or Indonesia. Similarly, freedom of speech might be conceived differently in Mexico than in Myanmar. In the following, we will look at some of the underlying issues involved here, namely:

- The race to the bottom.
- Migrant labour and illegal immigration.

THE 'RACE TO THE BOTTOM'

Apart from adapting or not adapting to *existing* employment standards in foreign cultures, Scherer and Smid (2000), among others, argue that MNCs also play a role in *changing* standards in those countries. Globalization clearly enables corporations to have a fairly broad range of choice for the location of plants and offices. This has meant that when you pick up the phone in Dublin and dial the customer service department of your bank, you could just as well be connected to an operative in Gdansk or Delhi, Manchester or Mumbai. Consequently, developing countries compete against each other to attract the foreign investment represented by such relocation decisions.

Many critics of globalization have contended that among the key factors in this competition for investment are the costs incurred by MNCs through environmental regulation, taxes, and tariffs, social welfare for employees, and health and safety regulations. As a result, large investors may well choose the country that offers the most 'preferable' conditions, which often means the lowest level of regulation and social provision for employees. This competition, therefore, can lead to a 'downward spiral' of protection, or what is often called a 'race to the bottom' in environmental and social standards (Rudra 2008).

The logic here is straightforward and compelling, and there is some convincing evidence that countries do indeed compete on the basis of reduced labour market standards to attract foreign direct investment (Olney 2013). Not surprisingly, though, it has also been hotly contested, not least because of the political and ethical ramifications of such an argument. Those advocating unfettered free trade tend to see the 'race to the bottom' argument as not only fallacious, but opposed in principle to free trade and deregulated global markets. Moreover, the idea that companies can force or encourage countries to lower their protection of worker rights is increasingly challenged by the ample supply of information about the treatment of workers across the world that is being made available through online platforms. The more activists, consumers, and others who know about the reality of labour conditions overseas, the fewer prospects there are for companies to take advantage of them. This was typified in the now classic case of the collapse of the Rana Plaza building in Bangladesh in April 2013 in which over 1,134 people were killed. Social media and online NGO platforms spread word of the extremely poor working and safety conditions in the Rana Plaza building, which housed several suppliers to Western clothes retailers, almost instantaneously. Then, in the years after the disaster, a multisector partnership between local Government, Bangladeshi industry, NGOs, trade unions, international brands, Spanish department store chain El Cortes Inglés, Canadian supermarket chain Loblaw, and the Irish clothes retailer Primark was at the heart of the subsequent developments to mitigate against such disasters happening again in the textile manufacture supply chain. The associated website of the Rana Plaza Arrangement contains more information on the progress of this important initiative (https://ranaplaza-arrangement.org).

This debate also leads to a broader potential responsibility for MNCs in the context of globalization. Rather than being concerned with ethical standards solely within the premises of their own company, MNCs, as perhaps the most powerful actors in such countries, are also in a position to assume a key role in building up so-called 'background institutions' (Scherer and Smid 2000). This includes institutions such as trade unions, health and safety standards, and various other rules, regulations, and standards that help to protect workers' rights. Nien-hê Hsieh (2009), for instance, contends that MNCs have a duty to avoid causing harm and that this carries with it a responsibility to promote minimally just social and political institutions in countries in which they operate, should such institutions be lacking.

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MIGRANT LABOUR AND ILLEGAL IMMIGRATION

A more recent phenomenon of globalization has been the growing mobility of workers globally (Wickramasekara 2008; Binford 2009). This can typically occur in the form of South-to-North immigration, such as the influx of immigrants from Latin America to the US or from Africa into the European Union. But it also occurs in many other regions globally, such as in Southern Africa or the United Arab Emirates; the latter drawing a large workforce from Pakistan, India, and Bangladesh. Migrant labour can also be a phenomenon attracted by certain industries, such as the mining industry, which often operates in geographic locations where there is no immediate workforce to recruit (Jeschke 2007).

Ethical issues around this phenomenon are manifold. To start with, migrant labour often puts corporations in a position to provide a host of social infrastructure, such as housing, transport, healthcare, or education. As migrant workers often come from poor countries, they are frequently willing to accept working conditions and salary levels that would normally be considered unacceptable. A key issue, however, is that these workers often enter countries illegally. In many places it is against the law to employ migrant workers, however much businesses, or even whole sectors, may rely on such a pool of workers. All of these factors make migrant workers particularly vulnerable to exploitation and it is no surprise to learn that migrant labourers often end up in working conditions akin to forced/unfree labour or modern-day slavery (Crane 2013b). Case 7 at the end of this chapter explores some of these challenges around migrant labour in more detail.

The US-based clothing company American Apparel, which we discussed in Case 2, took a particularly interesting approach to migrant labour. Having eschewed the more common approach of outsourcing its production and stitching to overseas contractors, the company focused production in-house in its downtown Los Angeles facilities, where it made extensive use of the city's pool of largely Hispanic migrant labour. Notably, the company offered its workforce generous working conditions, including decent wages, healthcare, subsidized lunches, English language classes, and employment security, which stood in stark contrast to conditions in most overseas contractors. Perhaps most unusual, though, was the company's active engagement in promoting progressive immigration reform in the US with its 'Legalize LA' campaign.[12]

THE CORPORATE CITIZEN AND EMPLOYEE RELATIONS

As we have discussed in some detail earlier in the chapter, ethical issues in employee relations are primarily framed in terms of a collection of rights. As such, these issues have a close relationship to the notion of corporate citizenship: corporations govern a great deal of the social and civil rights of citizens via the workplace. They need to protect privacy of information, provide humane working conditions, ensure fair wages, and allocate sufficient pensions and health benefits. Looking across the globe, however, we discover that the extent to which corporations take over this role, as well as the degree to which corporations are held accountable for the governance of these rights, varies considerably.

The key concept in this context is the idea of *co-determination*, which describes the relationship between labour (employees) and capital (shareholders) in Europe, namely that both parties have an equal say in governing the company (Ferner and Hyman 1998). In Germany and France, in particular, this has resulted in a very strong legal position for workers, works councils, and trade unions. So, for instance, in German companies in the metal industry, half of the supervisory board consists of employee representatives, and the executive board member for personnel has to be appointed by the workers directly. Consequently, the employees and their rights tend to be far better protected than in the Anglo-American model, where shareholders are regarded as the most important group.

Beyond the developed world context, it is fair to argue that, generally, the level of regulation (or at least enforcement of regulation) protecting employees is rather low in developing countries. Hence, many of the issues discussed here fall into the realm of voluntary 'good citizenship' from corporations, which, as we discussed in Chapter 2, often assigns to companies a role in respecting, protecting, and implementing basic human rights in the workplace. That said, however, we see that in many emerging economies, governments have, over time, tended to strengthen the protection and implementation of employees' legal rights. A prime example here is perhaps China, which for a long time has made headlines for the fairly poor labour standards prevailing in much of its industrial system. In 2008, though, the Chinese government implemented a new Labour Contract Law which represented a sea change in its approach to these issues by better protecting workers rights, for instance by committing all employers to providing employment contracts (Wang et al. 2009). While there are still clear possibilities for circumventing such regulation, it has been seen to have had a significant impact on worker protection—albeit by also increasing costs for firms (Adams 2008). A revision of the law looked to close some of the remaining loopholes by preventing abuse of temporary agency workers, who had been recruited in droves by Chinese companies as a means to avoid costly labour benefits.[13]

MANAGING INTERNATIONAL HUMAN RIGHTS

These regional differences and shifts in legal protections over time make it difficult for corporations to determine the scope of their responsibilities for protecting employee rights, especially in relation to the government responsibility for doing so. We discussed the notion and relevance of human rights for business ethics back in Chapter 3; as we explained, one of the most concrete manifestations of how embedded in business strategy human rights are becoming is the work by the UN and its former special representative on business and human rights, John Ruggie (2008). As we saw in Ethics in Action 3.1 the implementation of the UN Guiding Principles on Human Rights is an ongoing process, with a range of challenges globally. For companies exposed to human rights challenges the framework offers some important clarifications about the different responsibilities of business and government for protecting employees' (and other stakeholders') rights. Much work still needs to be done, but the UNGP have become a standard reference point for firms seeking to tackle human rights issues across their span of operations.

TOWARDS SUSTAINABLE EMPLOYMENT

In this chapter we have talked a great deal about respecting and guaranteeing employee rights in the workplace. On the one hand this inevitably suggests certain tensions when we think in terms of sustainability. Sometimes protection of wages and conditions for workers may have to be sacrificed to encourage sustainable economic development and maintain employment. Expansion of environmentally damaging industries, such as the airline industry, can often be seen to be good for job creation. Looking at it this way, there usually have to be some sacrifices or trade-offs between protecting employees and promoting various aspects of sustainability.

On the other hand, it is also possible to discern certain links with the intention to protect employee rights and the notion of sustainability. Only if we are gainfully employed in useful work, and feel respected as human beings, are we actively contributing to long-term sustainability in the *economic* sense. A workplace that puts us under stress or where we are treated unfairly will have long-term effects on our lifestyle, health, and well-being (Zheng et al. 2015). This aspect is closely linked to the *social* dimension of sustainability: organizations should treat the community of workers in a way that stabilizes social relationships and supports employees to maintain meaningful social relationships with their families, neighbours, and friends. Sustainability, finally, is also an issue here in the *ecological* sense. The modern corporation has, in many ways, created workplaces that are ecologically unsustainable. Employing fewer and fewer people in a highly mechanized and energy-intensive technological environment, while at the same time making no use at all of something like 10–15% of the potential workforce, could be seen as a major waste of material and energy.

In this section we shall look at three main ways in which these problems and tensions have been addressed, both in theory and in practice:

- Re-humanized workplaces.
- Wider employment.
- Green jobs.

RE-HUMANIZED WORKPLACES

The 'alienation' of the individual worker in the era of industrialized mass production has been discussed at least since the time of Karl Marx. The suggestion is that the impact of technology, rationalized work processes, and the division of labour has meant that many employees simply repeat the same monotonous and stupefying actions over and over again, resulting in there being little real meaning, satisfaction, or involvement in their work (Braverman 1974; Schumacher 1974). Whether in factories, fast-food restaurants, or call centres, much employment has been reduced to a series of meaningless 'McJobs', subject to intense management control, and with little chance of real engagement or job satisfaction. Even a shift towards more 'white-collar' work in offices can be argued to have created a legion of cubicle dwellers, endlessly tapping away at computers rather than enjoying active, creative, meaningful work (Cederström and Fleming 2012).

Therefore, although our 'rational' ways of organizing work can, and have, brought us tremendous efficiencies and material wealth, they have also created the prospect of a dehumanized and de-skilled workplace. The relationship between technology and the quality of working life is, however, actually a complex one (Connell et al. 2014). The impacts on the workplace are at the very least contingent on a variety of factors, including work organization, managerial motivation, and employee involvement (Wallace 1989). The point is that meaningful work is clearly not available to all, representing another form of injustice that we need to be aware of, beyond simple distribution of benefits (Sayer 2009).

There have been numerous attempts over the years to re-humanize the workplace in some way, for example by 'empowering' the employee (Lee and Koh 2001). This might include 'job enlargement' (giving employees a wider range of tasks to do) and 'job enrichment' (giving employees a larger scope for deciding how to organize their work). Many of these ideas attempt a completely different pattern of production. Rather than huge assembly lines, the idea is to create smaller-scale units where workers can be engaged in more creative and meaningful work, utilizing 'human-centred' technology (Schumacher 1974). Some car manufacturers (most notably the Swedish firms Saab and Volvo) have experimented with replacing the production line with small, partly autonomous, team-based working groups. Again, though, the success of such schemes has been contested, suggesting that the 'humanized' approach might be more appropriate and effective in some cultures (e.g. Scandinavia) than others (Sandberg 1995). More recently, the idea of 'greening the workplace' has prompted firms to consider a range of initiatives intended to promote human health and sustainability at work. This includes resource and waste reduction programmes, as well as incentives for using bicycles and public transportation, use of non-toxic cleaners, and providing healthy, locally produced, or organic food in staff canteens.

WIDER EMPLOYMENT

The mechanization of work has led to the situation where a large proportion of unemployed people has become a normality in many countries, threatening not only the right to work, but the social fabric of communities. It has been argued that efforts by politicians to change job markets or reinvigorate their economies will only ever partly solve the problem, since the increasing level of mechanization and computerization of working processes has meant that we simply do not require as many workers to provide the population with its needs (Gorz 1975). Authors such as Jeremy Rifkin (1995) have even gone so far as to suggest that new technologies herald the 'end of work'. This isn't something new—from the Industrial Revolution, to the introduction of robots to replace production line work at Ford in the early 1980s, to the increasing automation of iPhone factories in China, work and employment is consistently replaced by automation. What has changed is the level of sophistication of what can be achieved by robots, not least with the growth of Artificial Intelligence and human-like robots—fantasized further in the **Ethics on Screen 7** case of *Ex Machina*, where the blurred role of a co-worker/companion/girlfriend is somewhat grotesquely replaced by a robot, and the character Ava is arguably shown to be more intelligent than, and to outsmart, Nathan, her creator. In his book *The Rise of the Robots: Technology and the Threat of Mass Unemployment*, Martin Ford (2016) argues that even in contemporary society it isn't just factory line workers who are under threat, but travel agents, paralegals, taxi-drivers (think of driverless cars), doctors (apps which respond to individual medical questions), and, somewhat ironically, computer programmers.

From a sustainability perspective, the problem is essentially one of ensuring that meaningful work is available to all. Modern employment patterns have tended to create a cleavage between those who have the highly skilled jobs that require long hours of work for high returns, and those who are reduced to unemployment or at best a succession of low-skilled, poorly paid, temporary jobs. In recent years, there have been a number of interesting efforts to tackle this problem of creating a society of 'haves' and 'have-nots'. One attempt from the French government was the introduction of a 35-hour week. By legally reducing the working time for the individual, the idea was that organizations would be forced to employ more people to maintain the same level of output. Attractive as the idea may have been to some, it nevertheless had an ambiguous effect. For certain industries, the number of workers employed clearly rose, while in others the relative increase in the cost of labour prompted a tendency to replace labour with technology (Milner 2002).

This debate got a new boost with the concept of the '21-hour week' developed by the UK-based think tank, the New Economics Foundation (NEF 2010). It proposes a radical new approach to distributing work in society and suggests a model where everyone works just 21 hours a week. The core argument is that such a reduction of the core working time would not just distribute work more equally; most importantly, it would free up people's life to pursue other currently neglected tasks, such as preparing more of one's own food, caring for children and the elderly, more time for civic engagement, to name just a few examples. Far from a utopian ideal, the report also provides a number of examples where this approach has already gained traction: for instance, the state government of Utah in the US introduced the four-day week for its employees. The benefits were not only a boost in productivity and job satisfaction; it also resulted in a 20% reduction of gasoline consumption and greenhouse gas release through cutting commuting.

ETHICS ON SCREEN 7 *Ex Machina*

© Collection Christophel/Alamy Stock Photo

Confinement and liberation, agency and submission, mind and body

Manohla Dargis, *New York Times*

Directed by former novelist Alex Garland, this science fiction thriller is full of quirky literary references which help locate the film—which has Artificial Intelligence at its heart—in theological and philosophical terms, to many age-old themes. There are some interesting parallels to Mary Shelley's Frankenstein's Monster, though the emphasis here is on the intellectual rather than physical prowess of a human-like creation. While it also works at the level of a spooky thriller, the film helps to formulate some of the key questions about what it means to be human, what it means to be a machine, and where are the problems that need to be considered as we move closer and closer to human-like robots which can replicate the work—of all kinds—which humans currently do. The film, which won an Oscar for best visual effects, tells the story of the private actions of genius, and intimidating, high-tech company CEO, Nathan Bateman (played by Oscar Isaac), and competition-winning employee, young computer programmer, Caleb (Domhnall Gleeson). The fictional company, incidentally, is a search engine called 'Blue Book'—a nice reference to Ludwig Wittgenstein's treatise on language and humanity.

The third main character in the film is Ava (played by Alicia Vikander), a robot which Nathan has developed in his isolated home-cum-research-facility, which can only be reached by helicopter, where he is developing robots with Artificial Intelligence. Since this is Hollywood it is no surprise that the robots are presented as idealized women, but there is also a framing of the story as being about creation—of Nathan as the all-powerful god-like figure (it doesn't take a great deal of imagination to think of how some CEOs act and operate in this frame). Caleb, the 'chosen one' who is plucked from the relative security of his work environment to help work on Ava, is evidently in the end being used to see whether Ava (a combination of the names Eve and Adam from the Christian Old Testament—referencing the first of a new species) can manipulate him to help her get free. The relationship between Nathan and Caleb is clearly one of employer and employee, despite Nathan's attempts to get on a less formal footing with Caleb, largely driven by excessive beer drinking. No amount of beer, however, takes away the fact that Nathan is self-evidently the boss, and Caleb somehow privileged as an employee to be trapped in this beautiful home. This apparently informal approach to the employment relationship is reflected in companies like Google, where there are attempts for managers to 'stop being managers.'

In *Ex Machina*, Caleb remains wary of Nathan's position, and doesn't seem to ever forget that Nathan is his employer and he is ultimately a guest in his house and a subordinate to him. Following his instructions to get to know Ava, albeit uncertainly, Caleb realizes, gradually, that he is being manipulated. Meanwhile, some of the creepier aspects of Nathan's work begin to be revealed, such as his creation of a robot girlfriend for himself, Kyoko (played by Sonoya Mizuno), who, particularly unsettlingly, has not been enabled to talk, though she is instrumental to the thrilling ending of the film, taking the first steps to kill Nathan, which is completed by Ava. By this point, Caleb and Ava seem to have fallen for each other and he is ready to help her escape and live his life with her—such developments are a clear reference to how we understand humanity and machinery and indicate that robots can simply reflect our own social and psychological programming. In the end, whether this film has a happy ending depends on your point of view. Ava escapes, leaving a dead Nathan and a locked-up Caleb (reflecting the way that she has been locked up throughout the film) behind her. Is she free?

SOURCE

Dargis, Manohla. 2015. In 'Ex Machina', a mogul fashions the droid of his dreams. *New York Times*, 9 April 2015: https://www.nytimes.com/2015/04/10/movies/review-in-ex-machina-a-mogul-fashions-the-droid-of-his-dreams.html.

Visit the online resources for web links to useful sources of information related to this film.

GREEN JOBS

In the context of the economic downturn of the late 2000s and the debate on how to restructure the economy in a more sustainable fashion, many politicians and business leaders focused on the idea of creating more 'green jobs' (Gopal 2009). One aspect of these green jobs is, of course, that they are in industries producing environmentally friendly products (such as hybrid cars or solar panels) and services (such as recycling or car sharing). Another aspect of this movement towards green jobs is that the job itself, the workplace, and the way labour is organized become more environmentally sustainable (Forstater 2006; Gnuschke 2008).

Companies have taken a number of approaches to achieve the goal of a greener workplace. Incentivizing car-pooling, introducing the paperless office, reducing business travel by using videoconferencing, increasing recycling, and moving into low-energy use office space are just some examples of the types of initiatives organizations have explored to green the workplace. Another widely advocated solution is home-based working. Although this can be used as an excuse for poorer working conditions, working remotely can also, for example, help those with families to carry out their jobs while at the same time being able to look after children and fulfil other important family roles (Sullivan and Lewis 2001). Apart from the *social* benefits for the employee that working remotely can potentially bring, there may also be *economic* benefits for the company and even *ecological* advantages too. For instance, rather than commuting into work and adding to road congestion and air pollution, remote workers are likely to use far fewer resources by staying at home and communicating via mobile technology.

SUMMARY

In this chapter we have discussed the specific stake that workers and other employees hold in their organizations, and suggested that, although this stake is partially regulated by the employment contract, employees are also exposed to further moral hazards as a result of the employee–employer relationship. We have discussed how deep the involvement of corporations with employees' rights can be. Nearly the entire spectrum of human rights is touched upon by the modern corporation, including issues of discrimination, privacy, fair wages, working conditions, participation, association, due process, and freedom of speech.

The corporate responsibility for protection and facilitation of these rights is particularly complex and contestable in a global context, since it involves dealing with employees whose expectations and protections for rights may differ considerably. Indeed, we explained that the governmental role in issuing legislation to protect employees' rights has, to some extent, retracted. With the removal of such certainties, corporations would appear to have gained a good deal more flexibility with respect to employee relations. This has its downside in that corporations are left with a far larger amount of discretion regarding the protection of employee rights, making ethical decision-making far more complex and challenging—and more ripe for abuse.

We also explained how corporations in different parts of the globe face different regulatory environments, making it sometimes easier, sometimes more difficult, to live up to ethical obligations towards employees. While some of the issues, such as human rights or the role of trade unions, are more long-standing, we also discussed recent challenges such as illegal immigration and migrant labour. We also explored how the corporate role in relation to employees quite often puts corporations in a position very similar to that occupied by governments in relation to their citizens. This role is also visible in our discussion of challenges emerging from the call for more sustainable workplaces. This aspect is sure to be of increasing ethical interest for firms and their employees in the future.

STUDY QUESTIONS

1. What rights do employees have in a business context? To what extent are employee rights protected by:
   (a) The employment contract?
   (b) Legislation?
2. Do firms have an ethical obligation to increase diversity in the workplace? Provide arguments for and against, providing examples where relevant.
3. What is reverse discrimination? What are the main ethical arguments for and against reverse discrimination?
4. What are the four main types of privacy that employees might expect? Provide examples where each type of privacy might potentially be violated in a business context.
5. What conditions influence low payment of wages? Are some of the causes of low wages more ethically justifiable than others?
6. What responsibility should employers have for ensuring that their employees maintain an appropriate work–life balance? Set out some practical steps that employers could take to improve work–life balance and ensure a sustainable workplace environment for employees.

RESEARCH EXERCISE

The apparel industry has faced a range of criticisms over the years for its unethical labour practices. Choose a company that you have recently bought clothes from and conduct some research on its labour practices, past and present. You should start with the company's own website, but also look further afield such as at NGO websites, media reports, social media, and elsewhere.

1. What ethical issues or problems has the firm faced with respect to employees? Are there specific employee rights that appear to be most at risk of violation?
2. Explain why you think these issues have arisen. Be as specific as you can as to the likely causes.
3. How has the firm gone about dealing with these problems? Detail the specific practices as well as what you think its overall strategy to labour rights might be.
4. In which ways is the protection or violation of employee rights likely to impact upon the financial success of the firm?
5. How would you advise the company to go forward with its labour rights strategy?

KEY READINGS

1. Zheng, C., Molineux, J., Mirshekary, S., & Scarparo, S. 2015. Developing individual and organisational work-life balance strategies to improve employee health and wellbeing. *Employee Relations*, 37(3): 354–79.
   In this article we learn about the impact of work–life balance strategies on the health and well-being of employees. The authors find that some control by employees is important, not just the organizational provision of work–life balance programmes, and that those exercising their own work–life balance strategies showed better health conditions and well-being than those who do not.
2. West, J. P., & Bowman, J. S. 2016. Electronic surveillance at work: an ethical analysis. *Administration & Society*, 48(5): 628–51.
   This article explores the changes in employee privacy resulting from the rise of electronic technologies in the workplace. It lays out the main issues and provides an ethical evaluation of both the arguments in favour of surveillance as well as their drawbacks. The article also provides some useful recommendation for practice and for future research into the issue.

Visit the online resources for further key reading suggestions.

CASE 7 The expendables: migrant labour in the global workforce

This Case discusses the ethical challenges involved in employing migrant labour across a number of regional contexts. It provides an insight into the vulnerabilities of migrant workers, and the poor working conditions that they often encounter, sometimes giving rise to slave-like conditions. The Case provides an opportunity to examine the issues of employee rights discussed in Chapter 7, as well as offering a deeper look at the conditions giving rise to violations of these rights.

Millions of workers across the world migrate to new countries, regions, or cities in order to make a better life for themselves and their families. Whether it is Polish workers moving to the UK, Mexicans to the US, or Indians to Bahrain, migrants have become a major part of the global economy. However, migrant workers are also typically the most vulnerable members of the modern workforce. They are far from home, often with limited language skills, scant financial resources, poor support, and sometimes questionable legal status. As a result, migrant workers are at a particularly high risk of encountering poor working conditions, exploitation, and human rights violations of various kinds. In addition, they typically face discrimination and have few resources available to bargain for better

conditions or to ensure the protection of their rights. For their employers, these conditions may make migrant workers an attractive, low-cost labour force, but it also injects considerable ethical risks into the global economy that are difficult to manage.

Migrant workers in Europe

With its colonial ties to much of the developing world and its close proximity to Central and Eastern Europe and Africa, Western Europe has long been a major destination for migrant workers. The expansion of the European Union to include Central and Eastern European countries gave rise to significant movements of people across the continent looking for better opportunities. In total, the UK alone experienced net migration of some 2.5 million people during the first decade of the 2000s. This is credited with being one of the reasons why a slim majority in the UK voted to leave the EU in what has become known as the Brexit Referendum in June 2016. More broadly, between 3.5 million and

4 million people migrated to and between the EU member states every year during the 2000s. Some 10% of the European population who had migrated there were born outside the EU.

Europe has also been a common destination for illegal immigrants, although the numbers entering the EU illegally have been far smaller than those migrating legally. A peak influx of around 140,000 was recorded in 2011, following conflict during the Arab Spring, and a further spike followed the Syrian civil war in the mid-2010s.

In the face of such growth in all kinds of migration across Europe, it has become a hot political issue in most Western European and Scandinavian countries, giving rise to a steep increase in the popularity of anti-immigrant political parties and policies. As such, the plight of migrant workers in Europe is quite challenging. Overall, they fare considerably worse than their native-born counterparts in the workplace. According to official EU statistics, first-generation migrants experience considerably lower levels of labour market participation, higher levels of unemployment, and a higher rate of over-qualification (i.e. being skilled or educated beyond what is necessary to do the job) compared with native-borns. However, far worse conditions are typically experienced by those living or working illegally in the EU, or those with strict limitations on the jobs open to them. For instance, it was estimated by the International Labour Organization in 2016 that 3.6 of every 1,000 people were victims of forced labour in the European Union, the majority being EU citizens who had migrated from one member state to another. Domestic work, agriculture, manufacturing, and construction have been identified as the industries most likely to experience forced labour among migrants in Europe.

The exploitation of migrant workers in the EU is often connected to the way in which they enter the country, irrespective of whether they enter legally or illegally. Recruitment agents and middlemen operating in the workers' countries of origin may use various forms of deception or coercion to recruit workers with the promise of sometimes non-existent jobs in their destination country. Workers often borrow large amounts of money to pay recruiters for arranging transport and travel documents and a fee for securing a job in the expectation of future returns. However, if the job they finally receive upon arrival does not enable them to repay the loan, let alone to further support their family and community at home, they sometimes become trapped by huge debts and have insufficient funds to return home. These debts may be further exacerbated through inflated charges for basic accommodation and food, which are in turn deducted from their salary. In extreme cases this can land migrant workers in debt bondage to their employer or recruiter.

Consider, for example, the case of the first conviction for modern slavery in the UK. Four family members of a small construction firm were found guilty of keeping 23 workers in a state of servitude and forcing them to perform unpaid work. Living in accommodation that was deemed unfit for human habitation, the men worked for up to 19 hours a day, daily, with little or no cash payment. Physical violence and threats of violence were used to keep the workers compliant, in addition to 'mental torture', in the words of one victim.

Migrant workers in the Middle East

In other parts of the world migrants make up a still larger proportion of the workforce. Nowhere is this more evident than in the Middle East, and the Persian Gulf in particular. Taken together, the Gulf states of Bahrain, Kuwait, Qatar, Saudi Arabia, and the UAE are the largest recipients of temporary migrant workers in the world. In some Gulf states, such as Qatar and the UAE, more than 80% of the population consists of non-nationals, the majority of whom are contract workers. Most of the foreign workers in the Middle East are Asian—the major countries of origin being Bangladesh, India, Indonesia, Pakistan, Philippines, and Sri Lanka. Two-thirds of migrant workers are men, the majority of whom are engaged in low-skill occupations in production, construction, and service sectors. Women, meanwhile, have typically been employed in domestic service.

Abuses of foreign workers in the Middle East have been documented for many years, but the issue made international headlines over a period of more than a decade from the mid-2010s, following

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reports of hundreds of foreign worker deaths and reputed conditions of 'modern-day slavery' in the construction boom generated when Qatar was awarded the right to host the 2022 FIFA World Cup. Thousands of construction workers from India and Nepal are recorded as having died, because of extreme temperatures, enforced 12-hour working days, and limited access to water. Evidence emerged of workers routinely having their documents confiscated, pay being withheld for months, inadequate safety standards, and squalid labour camps with overflowing sewage and insufficient water supply. Conditions were so bad, according to the International Trade Union Confederation (ITUC), that the Qatar World Cup construction would 'leave 4,000 migrant workers dead' before the tournament kicked off in 2022.

Migrant workers are critical for the Qatar economy, but have long been plagued by limited rights and freedoms. There are 1.4 million migrant workers in Qatar, representing 94% of the country's entire labour force and approximately 85% of the population. However, the average migrant worker makes about $300 a month, compared to the average national salary of $2,140 a month and gross national income per capita of $80,000. So, while revenues from oil and natural gas have enabled Qatar to attain the highest GDP per capita in the world, the majority of its foreign workforce continues to experience low salaries and poor working conditions.

The plight of migrant workers in Qatar is exacerbated by the state-run 'kafala' sponsorship system, which also operates in Saudi Arabia and a number of other Gulf states. Under the kafala system, workers must have an in-country sponsor (typically their employer) who is responsible for their legal status. Workers are therefore unable to change jobs or leave the country without their sponsor's permission, making them highly dependent on their employer, and giving them limited means of seeking redress when faced with exploitation. Moreover, certain categories of workers in Qatar are excluded from labour law protections and only Qatari workers are allowed to form or join trade unions.

Following revelations of systematic abuse of migrant workers in the construction industry in Qatar, organizations such as Amnesty International, the ILO, the ITUC, and the UN all called for Qatar to repeal or revise its labour laws in order to provide better protections for foreign workers. Companies involved in the construction sector were also urged to take action and institute more effective due diligence policies and procedures to prevent labour exploitation, including among subcontractors and suppliers, where much of the abuse was found to occur. Following a severe ruling by the ILO, the ITUC stated that companies were 'on notice that doing business with Qatar goes against international laws. Until Qatar brings its laws in line with international norms, companies face the reputational and legal risks of using forced labour in Qatar.'

In the face of such major international pressure, the Qatari authorities made substantial reforms to their labour laws in 2014. This included a strengthening of laws related to recruitment agency fees, mandatory requirements for firms to pay workers by electronic bank transfer rather than arbitrary cash payments, an end to foreign workers needing their employer's permission to leave the country or change jobs, and a commitment to phase out the kafala system. According to Amnesty International, it was a 'missed opportunity' that fell 'far short of the fundamental changes needed to address systemic abuses against migrant workers'. The problems continue. In a chilling reflection of the ongoing state of play in 2017, Human Rights Watch found that protection from heat and humidity was 'woefully inadequate', and that hundreds of construction workers were dying each year, and their deaths are by no means fully acknowledged or reported. They say that any initiatives in place only cover a tiny minority of workers. As World Cup fever takes over from concerns about how those beautiful stadia were created, in the run-up to the games, critics angrily claimed that Qatar's workers are actually enslaved, building mausoleums, not stadia.

Migrant workers in China

Migrant workers are not always intent on crossing national boundaries. China, for example, is home to more than 282 million domestic migrant workers who have been drawn from rural areas to cities in search of higher incomes and an escape from poverty. By 2016, the rural migrant worker population represented over a third of the total workforce.

Chinese rural migrant workers have been crucial to China's economic growth, fuelling the supply of low-cost labour for the country's booming export economy. Internal migrants are typically young, poorly educated, generally healthy, and highly mobile. Short-term employment sectors, including manufacturing, construction, and social services industries, account for over 60% of such migrants.

As with cross-border migrants in Europe and the Middle East, domestic migrants in China also face major inequalities. Local urban workers tend to predominate in the primary labour market (which offers high salaries, stable employment, and good working conditions), while rural migrants have mainly been employed in the secondary labour market (characterized by lower salaries, insecure employment, and poor conditions of work). Rural migrants are particularly disadvantaged by the hukou system—rules that keep rural residents from obtaining jobs in the formal sector, and that prevent them from obtaining many of the same services as urban residents, including health and unemployment insurance, pensions, free education for children, and subsidized housing. This has not only led to continued income disparity between urban and rural populations, but also to the mistreatment of migrants. Discrimination or harassment from employers and co-workers is common.

A further problem with migrant workers in China concerns the fate of their families. Studies have reported that there are more than 60 million 'left-behind children', whose parents have been forced to abandon them in the home village when moving to the city. These children face a number of challenges and often struggle with emotional and developmental problems. On the other hand, the 30 million children who have been able to migrate with their parents have faced their own problems, mainly due to the lack of time and financial means on the part of their parents to provide a decent upbringing.

The plight of migrant workers in China was brought into sharp relief in the West by a spate of worker suicides at Foxconn plants in Southern China, where products for Apple, Hewlett-Packard, and other technology brands are produced. Foxconn remains the single largest supplier in mainland China. China also experienced a surge in labour protests by migrant workers seeking better pay and conditions, threatening the Chinese authorities' vision of a harmonious society.

Such problems have not gone unnoticed. While companies have sought to address poor labour conditions and discrimination with codes of conduct and supplier training, the Chinese government has instituted various labour market reforms, including attempts to reform the hukou system. To date, these have met with some success, but deeper change has been difficult to achieve due to the complex nature of the current system and problems with enforcement given the entrenched nature of rural discrimination in the country.

QUESTIONS

1. What are migrant workers and what role do they play in the global economy?
2. Should migrant workers have the same employment rights as native-born workers? To what extent do you think they actually experience equality of rights in Europe, the Middle East, and China?
3. What are the main causes of vulnerability among migrant workers that give rise to exploitation in the workplace? Can you account for any similarities or differences across different regions?
4. What role should (a) governments, and (b) companies take in protecting migrant workers from exploitation? Do you have any suggestions as to how the two can work together to address such problems?
5. What long-term strategies do you suggest for companies looking to deal with the exploitation of migrant workers in their supply chains?

Visit the online resources for web links to useful sources of further information on this Case.

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NOTES

[1] For more details on the UN Declaration of Human Rights, see http://www.un.org.

[2] Full details on these labour standards can be found at http://www.ilo.org.

[3] The word 'discrimination' in the proper sense just means 'to make distinctions'. However, in the context of employment issues, people nearly always talk of 'discrimination' when in fact they mean 'unfair' or 'unjust discrimination'. For simplicity reasons, we use the term in this normative sense as well.

[4] http://www.catalyst.org/knowledge/women-boards.

[5] https://www.wgea.gov.au/sites/default/files/gender-pay-gap-statistics.pdf.

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[illegible] crews-threaten-[illegible]

[illegible] contracts

[illegible]

See "For richer, for poorer," The Economist, [illegible] [illegible]

[illegible] effects-small-business

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8

Consumers and Business Ethics

Having completed this chapter you should be able to:

- Explain the stake that consumers have in corporations.
- Describe the ethical issues and problems faced in business–consumer relations.
- Critically evaluate the impact of globalization on responsibilities towards consumers.
- Analyse the arguments for more responsible marketing practices.
- Evaluate consumer decision-making models in the context of ethical consumption.
- Explain the role of sustainable consumption in effecting positive social change through corporations.

Key concepts

- Consumer rights
- Consumer deception
- Consumerism
- Consumer vulnerability
- Consumer privacy
- Ethical consumption
- Attitude-behaviour gap
- Sustainable consumption
- Sharing economy

INTRODUCTION

Consumers are obviously one of the most important stakeholders for any organization, since without the support of customers who demand and purchase goods and services, most organizations would be unlikely to survive for very long. By consumers, though, we do not just mean the end consumers who ultimately buy finished products in the shops. All of the organizations that purchase, or otherwise contract for, the provision of goods and services from other organizations can be regarded as customers. A university, for example, is just as much a consumer as you are, in that it buys furniture, stationery, books, journals, cleaning services, etc., in order to go about its business of providing teaching and research. It has also become increasingly common for people to refer to departments serviced in some way by other departments within the *same* organization as internal customers. Hence, while our main focus is on private individual consumers such as you, we will also at times refer to the broader category that includes the whole chain of internal and external constituencies that receive goods or services through exchange.

Given the importance of consumer support for the ongoing success of an organization, it is no surprise that being ethical in dealing with consumers is generally regarded as one of the most crucial areas of business ethics. Moreover, since consumers are primarily outside the organization, ethical problems in this area are often some of the most visible and most difficult to hide of ethical violations. This can lead to potentially damaging public relations problems, media exposés, and other threats to the reputation of the corporation that might be more easily avoided in the context of employees, shareholders, and other stakeholders. For instance, Swiss food and drink company Nestlé received the accolade of the world's 'least ethical company' in 2015 from ethicalconsumer.org. Among supply chain issues associated with child labour and palm oil, the company is the subject of one of the longest consumer boycotts, due to irresponsible marketing practices around baby milk formula. Clearly, consumers can play a key role in defining (un)ethical business behaviour.

In this chapter, we shall examine the challenges faced by corporations in dealing ethically with consumers in the global economy, focusing on the main corporate functions of sales and marketing. Many writers on marketing ethics have highlighted the lack of public trust in the advertising, public relations, and sales professions (e.g. Laczniak and Murphy 1993; Assael 1995; Larsson 2007), and marketing has long been perceived as among the least ethical of business functions (Baumhart 1961; Tsalikis and Fritzsche 1989). A helpful question to bear in mind as you read through this chapter is one provided by Mittelstaedt and colleagues (2014): is marketing the *solution* (in playing a positive role in economic development and societal well-being) or, in fact, the *problem* (in perpetuating social, environmental, and economic ills)? This question relates to a recent surge in interest from the public, practitioners, and academics alike regarding the role that ethical marketing and consumption can play in a sustainable society. As we shall now see, this has led to a fascinating, yet still unresolved, debate about the nature of ethical marketing, and in particular about the role of consumers therein. In order to address such a question, though, we first have to establish the nature and scope of the 'stake' consumers have in corporations.

CONSUMERS AS STAKEHOLDERS

It is by now common to hear the argument that businesses are best served by treating their customers well, or that 'the customer is always right'. Indeed, this is essentially one of the core tenets of business strategy—that organizations succeed by outperforming their competitors in

Figure 8.1 Ethical issues for consumers within key industries

Multinational drug companies	Exploiting the sick and poor by maintaining high prices for lifesaving drugs and preventing the sale of cheaper alternatives.
Fast-food and soft-drinks companies	Targeting children with unhealthy, high-sugar, low-nutrition products.
Banks and credit card companies	Offering easy credit to people already in serious debt.
Mobile phone companies	Selling restrictive contracts and overcharging their customers with expensive call rates.
Technology companies	Disregarding consumer privacy by tracking people's web use and making it available to advertisers and even governments.
Schools and other educational institutions	Serving students with cheap processed food and providing access to unhealthy products through vending machines.

providing superior value to their customers. Those companies that prosper in the marketplace are those that pay close and continuous attention to satisfying their customers. Indeed, in many ways, it is hard to challenge the logic of this argument. Of course, an organization will seek to satisfy its customers, for if it does not, then those customers will defect to competitors, thus resulting in loss of sales, and ultimately, profitability.

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However, one might also ask why, if the interests of producers and consumers are so closely aligned, the abuse of ethics relating to consumers continues to hit the headlines and the reputation of the marketing and sales professions remains so poor. **Figure 8.1** shows just a few examples that have occurred within the last decade, where organizations have been accused of treating their customers in a questionable manner. These are just a few of the many examples that are regularly revealed by the media, consumer groups, and other 'watchdog' organizations. Clearly, such incidents are cause for concern, but what does this tell us about the nature of the stake held by consumers? The first point to make here is that we must question whether the satisfaction of consumer stakeholders is always consistent with the best interests of the firm. While such an assumption of aligned interests may be legitimate in some contexts, or where certain conditions are met, there may also be situations where the interests of buyers and sellers *diverge* (Smith 1995).

We shall examine some of these contexts and conditions as we proceed through the chapter, but at the most basic level, the co-alignment of interests between buyers and sellers depends on the availability of alternative choices that the consumer might reasonably be able to switch to. Secondly, in the absence of a clear mutual interest in all contexts, we also need a normative conception of the stake held by consumers in order to determine what constitutes unethical behaviour towards them. Typically, this normative basis has been established on notions of consumer rights. Given the notion of rights that was introduced in Chapter 3, consumer rights rest upon the assumption that consumer dignity should be respected, and that sellers have a duty to treat consumers as ends in themselves, and not only as means to the end of the seller.

> **Consumer rights** Inalienable entitlements to fair treatment when entering into exchanges with sellers.

What constitutes *fair treatment* is, however, open to considerable debate. In the past, consumers were adjudged to have few if any clear rights in this respect, and the legal framework for market exchange was largely predicated on the notion of *caveat emptor*, or 'buyer beware' (Smith 1995). Under *caveat emptor*, the consumer's sole right was to veto purchase and decide not to purchase something (Boatright 2014). The burden for protecting the consumer's interest, should they have wanted to go ahead with a purchase, therefore lay with the consumer, not with the party making the sale. So, under the rule of buyer beware, providing producers abided by the law, it was the consumer's responsibility to show due diligence in avoiding questionable products. If they were subsequently harmed or dissatisfied with a product or service, it was regarded as their own fault.

THE LIMITS OF *CAVEAT EMPTOR*

During the latter part of the 20th century, this notion of *caveat emptor* was gradually eroded by changing societal expectations and the introduction of consumer protection laws in most developed countries (Smith 1995). Consequently, protection of various consumer rights, such as the right to safe and efficacious products (i.e. effective in doing what they are supposed to do) and the right to truthful measurements and labelling, is now enshrined in United Nations (UN) guidelines as well as in European Union (EU) regulations and various national laws. Figure 8.2, for example, shows the main objectives and principles of the UN Guidelines on Consumer Protection, which set out the consumer needs that governments are expected to meet. As we have restated a number of times in this book, though, business ethics often begins where the law ends. So, it is frequently in the context of the more ill-defined or questionable rights of consumers, and those that are not legally protected or are particularly vulnerable, that the most important ethical questions arise.

For example, we might reasonably suggest that consumers have a right to truthful information about products, and legislation usually prohibits the deliberate falsification of product information on packaging and in advertisements. However, certain claims made by manufacturers and advertisers might not be factually untrue, but still may end up misleading consumers about potential benefits. For instance, in many countries, claims that a food product is 'low fat' are permissible providing the product is lower in fat than an alternative, such as a competing product or another of the company's product line. This means that even a product with 80% fat can be labelled 'low-fat' providing there is an alternative with 85% fat. For customers seeking a healthy diet, the 'low fat' product may seem attractive, but it might not actually provide the genuinely healthy benefits suggested by the labelling. Indeed, evidence suggests that low-fat labels lead people, especially those who are already overweight, to actually increase their calorie intake (Wansink and Chandon 2006). So, we might reasonably question whether

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Figure 8.2 UN Guidelines on Consumer Protection

Objectives

Taking into account the interests and needs of consumers in all countries, particularly those in developing countries; recognizing that consumers often face imbalances in economic terms, educational levels and bargaining power; and bearing in mind that consumers should have the right of access to non-hazardous products, as well as the right to promote just, equitable and sustainable economic and social development and environmental protection, these guidelines for consumer protection have the following objectives:

(a) To assist countries in achieving or maintaining adequate protection for their population as consumers.
(b) To facilitate production and distribution patterns responsive to the needs and desires of consumers.
(c) To encourage high levels of ethical conduct for those engaged in the production and distribution of goods and services to consumers.
(d) To assist countries in curbing abusive business practices by all enterprises at the national and international levels which adversely affect consumers.
(e) To facilitate the development of independent consumer groups.
(f) To further international cooperation in the field of consumer protection.
(g) To encourage the development of market conditions which provide consumers with greater choice at lower prices.
(h) To promote sustainable consumption.

General principles

Governments should develop or maintain a strong consumer protection policy, taking into account the guidelines set out below and relevant international agreements. In so doing, each Government should set its own priorities for the protection of consumers in accordance with the economic, social and environmental circumstances of the country and the needs of its population, bearing in mind the costs and benefits of proposed measures. The legitimate needs which the guidelines are intended to meet are the following:

(a) The protection of consumers from hazards to their health and safety.
(b) The promotion and protection of the economic interests of consumers.
(c) Access of consumers to adequate information to enable them to make informed choices according to individual wishes and needs.
(d) Consumer education, including education on the environmental, social, and economic impacts of consumer choice.
(e) Availability of effective consumer redress.
(f) Freedom to form consumer and other relevant groups or organizations and the opportunity of such organizations to present their views in decision-making processes affecting them.
(g) The promotion of sustainable consumption patterns.

Source: United Nations 2003. *United Nations Guidelines for Consumer Protection* (as expanded in 1999). New York: United Nations Department of Economic and Social Affairs: 2–3. http://www.un.org. © United Nations 2003. Reprinted with the permission of the United Nations

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the consumer purchasing such a product has been treated fairly by the seller. It is in such grey areas of consumers' rights that questionable marketing practices arise. In the following section, we will review the most common and controversial of these ethical problems and issues.

Before we go on to discuss these practices, it is important to mention at this stage that the stake consumers hold in corporations does not only provide them with certain rights, but also entrusts them with certain responsibilities. At one level, we can think of this just in terms of the expectations we might have for consumers themselves to act ethically in dealing with the producers of products. Customers might sometimes be in a position where they can take an unfair advantage of those who supply them with products, particularly if we think about the situation where customers are actually other firms. For instance, powerful retailers may exert excessive pressure on their suppliers in order to squeeze the lowest possible prices out of them for their products. Even at the level of individual consumers, certain expectations are placed on us to desist from lying, stealing, or otherwise acting unethically in our dealings with retailers, insurance companies, and other companies. For instance, prior to the rise of streaming music and media content, illegal file sharing through the internet prompted record companies to combat music downloaders, predominantly through legal proceedings against individual consumers, and via new arrangements with internet service providers. One case resulted in a man being given a five-year prison term and a fine of $1.5 million for file sharing movies, music, and games online (Kerr 2013).

At a different level, though, and probably more importantly, various writers have also suggested that certain responsibilities are placed on us as consumers for controlling corporations in some way, or for avoiding environmental problems, through our purchase decisions. If we do not like the way that Apple treats the workers in its supply chain, or the way that ExxonMobil has responded to global warming, is it not also up to us to make a stand and avoid buying their products in order to get the message across? If we really want to achieve sustainability, do we not have to accept certain curbs on our own personal consumption? These are vital questions in the context of corporate citizenship and sustainability, and we will discuss these problems in more depth towards the end of the chapter.

ETHICAL ISSUES, MARKETING, AND THE CONSUMER

The question of dealing ethically with consumers crosses a wide range of issues and problems. Generally speaking, these fall within one of the three main areas of marketing activity, as summarized in **Table 8.1**. We shall look at each of these in turn, and explore the different perspectives typically applied to such problems in order to reach some kind of ethical decision or resolution.

ETHICAL ISSUES IN MARKETING MANAGEMENT

Most ethical issues concerning business–consumer relations refer to the main tools of marketing management, commonly known as the 'marketing mix' or the '4 P's'—product policies, promotion (or marketing communications), pricing approaches, and place (or distribution practices). We will now look at each one of these areas in turn.

Ethical issues in product policy

At the most basic level, consumers have a right to—and in most countries, organizations are legally obliged to supply—products and services that are safe, efficacious, and fit for the purpose for which they are intended. In many respects, it is in both the buyer's and the seller's interests that this is the case, since a producer of shoddy or unsafe products is generally unlikely to prosper in a competitive marketplace. Indeed, the vast majority of exchanges are conducted to the entire satisfaction of both parties. However, many everyday products that are bought or

Table 8.1 Ethical issues, marketing, and the consumer

Area of marketing		Some common ethical problems	Main rights involved
Marketing management	Product policy	Product safety Fitness for purpose	Right to safe and efficacious products
	Marketing communications	Deception Misleading claims Intrusiveness Promotion of materialism Creation of artificial wants Perpetuating dissatisfaction Reinforcing stereotypes	Right to honest and fair communications Right to privacy
	Pricing	Excessive pricing Price fixing Predatory pricing Deceptive pricing	Right to fair prices
	Distribution	Buyer–seller relationships Gifts and bribes Slotting fees	Right to engage in markets Right to make a free choice
Marketing strategy		Targeting vulnerable consumers Consumer exclusion	Right to be free from discrimination Right to basic freedoms and amenities
Market research		Privacy issues	Right to privacy

used can potentially harm, injure, or even kill people, especially if they are used improperly. This goes not only for products such as alcohol and cigarettes, but also for cars, bicycles, tools, medicines, public transport, investment services, catering services—in fact almost no area of consumption is free from at least the potential to inflict some form of physical, emotional, financial, or psychological harm upon consumers. The questions that arise are:

- What lengths should the producers of goods and services go to in order to make them safe for the consumer's use?
- To what extent are producers responsible for the consequences of the consumer's use of their products?

One way to look at this is to argue that manufacturers ought to exercise *due care* in ensuring that all reasonable steps are taken to ensure that their products are free from defects and safe to use (Boatright 2012). The question of what exactly constitutes due care is of course rather difficult to define, but this assessment tends to rest on some notion of negligence and whether the manufacturer has knowingly, or even unwittingly, been negligent in their efforts to ensure consumer protection. Such presumptions go well beyond the moral minimum typically presented by the notion of *caveat emptor*. Rather, here the suggestion is that it is the producer's responsibility to ensure that products are fit and safe for use, and if they are not, then producers are liable for any adverse consequences caused by the use of these products.

Ultimately, though, safety is also a function of the consumer and their actions and precautions. Providing a producer has exercised due care in ensuring consumers are protected under expected conditions (or perhaps even extreme or emergency situations), and has informed them of the risks, consumers themselves must take some responsibility for acting hazardously or misusing the product. For example, surely we cannot blame a manufacturer of ice cream if a consumer eats so many tubs in one go that they make themselves sick from over-consuming the product (providing, at least, that such practices have not been advocated by the firm in its advertising).

If we think about the example of cars, we can see that the consumer's right to a safe product is not an *unlimited right*. While they might certainly expect that a manufacturer has ensured that the vehicle meets 'reasonable' safety standards, any given car could obviously have been made safer yet—though at some cost, and in all likelihood with some compromise on other features, such as performance or styling. Because these improvements are possible, it does not mean that consumers have a right to them. However, firms marketing inherently risky products (such as tobacco or unhealthy food), or products that are especially prone to misuse (such as alcohol), might still exercise responsibility in ensuring that consumers properly understand the risks involved in consuming their products in the form of product labelling and consumer information in marketing communications.

Ethical issues in promotion (marketing communications)

In all of the areas of business ethics pertaining to marketing and consumption, probably no other issue has been discussed in so much depth and for so long as has advertising. Advertising and promotion, though, represent just one aspect of marketing communications, and while much less attention has been afforded to other aspects, ethical problems and issues also arise in respect to personal selling, sales promotion, direct marketing, public relations, and other means of communicating to consumers.

Criticisms of these practices have been extensive and varied but can be usefully broken down into two levels: individual and social. At the level of the individual consumer, critics have been mainly concerned with the use of *misleading or deceptive practices* that seek to create false beliefs about specific products or companies in the consumer's mind, primarily in order to increase the propensity to purchase. At the social level, the main concern is with the *aggregate social and cultural impacts* of marketing communications on everyday life, in particular their role in promoting materialism and reifying consumption. Indeed, while materialism may be the sign of a prosperous economy and society, it also brings many social ills, as we explore throughout this chapter.

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Looking first at misleading and deceptive practices affecting individual consumers, marketing communications are typically said to fulfil two main functions:

- to *inform* consumers about goods and services; and
- to *persuade* consumers to actually go ahead and purchase products.

If such communications were just about providing consumers with information, then it could be suggested that the question of misleading practices is essentially one of assessing whether a particular claim is factually true or not. However, this perspective suffers from a number of shortcomings; most notably that marketing (along with much human communication) does not only deal with straightforward, declarative sentences of literal fact. Consider, for example, the ad campaign for the soft drink Red Bull, which claims 'Red Bull gives you wings'. Obviously, the advertiser is not claiming that by drinking Red Bull the consumer will literally sprout a pair of wings, but simply that the high-caffeine drink can give you a bit of an energy boost. Similarly, the 'global warming ready' slogan used by the Italian clothing company Diesel in its controversial ad campaign was not meant to deceive us that Diesel clothes would literally prepare us for climate change, but was rather meant as an ironic statement about their cool summer collection. Such claims are not misleading because we do not expect them to be telling us a literal truth.

Additionally, it is possible to mislead even when making statements of fact (De George 1999: 278); for instance, when firms claim that only 'natural' flavourings and colours are used in a product, this may veil the true provenance of the additives used. Eric Schlosser's (2001) book *Fast Food Nation* called attention to the very unnatural processes that sometimes lurk behind the all-natural claims. One example he gives is of cochineal extract (also known as carmine, or carminic acid, or simply hidden by the phrase 'colour added') which 'is made from the desiccated bodies of female *Dactylopius coccus* Costa, a small insect harvested mainly in Peru and the Canary Islands. The bug feeds on red cactus berries, and colour from the berries accumulates in the females and their unhatched larvae. The insects are collected, dried, and ground into a pigment. It takes about 70,000 of them to produce a pound of carmine, which is used to make processed foods look pink, red, or purple.' Carmine has been used in many food products, including fruit drinks, frozen fruit bars, sweets, and fruit fillings—yet few customers (including vegetarians) would have any idea from where the products got their colour. Starbucks was forced to remove it from its Strawberry & Crème Frappuccino, while Danone has long used it in its strawberry and other flavoured yoghurts (Tepper 2013).

The situation is not so clear-cut that we can simply limit our discussion to factual truth. The persuasive nature of most marketing communications means that we expect them to exaggerate, overclaim, boast, and make playful, if sometimes outlandish, allusions—and indeed we often enjoy them for these very same reasons (Levitt 1970). When Volvo uses the slogan 'Volvo. For Life', we are not evaluating this as a factual statement that a Volvo really lasts a lifetime, but as a typically exaggerated claim that seeks to convince us of the superior quality of the company's products.

It is important to recognize that persuasion in itself is not inherently wrong. We all attempt to persuade people to do or believe certain things: your lecturer might try and persuade you to read your Crane, Matten, Glozer, and Spence, *Business Ethics* text; your friends might try and persuade you to forget about studying and join them for a night of partying. The problem comes when persuasion involves deception of some sort.

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Consumer deception is somewhat difficult to define in this respect, but it is largely concerned with acts whereby companies deliberately create false impressions on the part of consumers to satisfy their own ends. It is one thing to make something appealing—after all, much marketing communications activity, such as public relations and advertising, is intended to show organizations and their goods and services in the best possible light. However, when this involves creating or taking advantage of a belief that is actually *untrue*, then we start to move into the field of deception. This issue is particularly heightened in the murky world of online communications, where the increased prevalence of user-generated content gives rise to material that is devoid of third-part filtering, fact-checking, or editorial judgement (Allcott and Gentzkow 2017). As Boatright (2014) suggests, deception occurs when the ability of people to make rational consumer choices is interfered with by marketing communications that rely on false beliefs.

Consumer deception When a marketing communication either creates, or takes advantage of, a false belief that substantially interferes with rational consumer decision-making.

For example, if your lecturer chose to persuade you to read Crane, Matten, Glozer, and Spence's book by suggesting that by doing so you would automatically get better marks in the end-of-semester examination, then we might consider that they had attempted to create a false belief in your mind. If a person of reasonable intelligence would be likely to believe the claim, then it could be suggested that this might impair your rational judgement about whether to read the book, and thus would constitute an act of deception. However, it is important to recognize that deception is not just about telling lies, or even just about verbal claims. Consumers can also be deceived by advertisements that appear to intimate that using a certain product will make them more attractive, more popular, or more successful. They might similarly be deceived by slogans that give a false impression of a product's qualities. For example, in 2014, L'Oréal agreed to a settlement with the Federal Trade Commission in the US over claims made in the advertising of its 'Youth Code' skincare product that it can generate 'youth benefits' by targeting the user's genes. And, in 2018, contraception application 'Natural Cycles', which predicts the days on which a woman is fertile and may be used for planning pregnancy and contraception, was banned from calling itself 'highly accurate' in online adverts, by the UK Advertising Standards Authority (ASA). Clearly the implications of deception in this context do not need explanation. By focusing on consumers' ability to make rational choices as a result of their exposure to marketing communications, we are essentially concerned with consumers' rights to make independent decisions free from undue influence or coercion. Here, an ethical line needs to be drawn between persuasion and manipulation.

Potential violations of such rights occur fairly frequently in the field of marketing communications, not least because the boundaries between honest persuasion and outright deception are somewhat hazy where certain practices are concerned. For instance, some manufacturers have chosen to veil price increases by making small, unannounced reductions in package sizes while keeping prices constant, thus creating the impression that prices have remained stable. Should we expect them to issue us with announcements of any size changes, or given that weights and volumes have to be legally identified on packaging anyway, is it not up to us as consumers to check sizes? **Ethical Dilemma 8** presents another situation where questions of deception might arise.

Practices such as these are usually perfectly legal, particularly as the advertising industry continues to push for self-regulation rather than governmental regulation of its members. The European Advertising Standards Alliance (EASA), for example, brings together self-regulatory organizations and advertising industry representatives throughout Europe to promote self-regulation and to set and apply ethical rules and guidelines for good practice.[1] In the US, however, consumers often turn to the courts to sue corporations for perceived infringements. For instance, in 2014 Red Bull agreed to a $13 million settlement because the above-mentioned claim that its beverage 'gives you wings' was judged 'deceptive and fraudulent' in court (Culzac 2014). Ultimately, any assessment of consumer deception will depend critically on what degree of interference in consumers' rational decision-making we decide is acceptable, how well consumers can delineate between fact and fiction, and whether by getting this wrong they will be significantly harmed. After all, as Boatright (2014: 226) contends: 'claims in life insurance advertising, for example, ought to be held to a higher standard than those for chewing gum.'

The second level at which criticisms of marketing communications have been raised concerns their social and cultural impact on society. For instance, the UK self-regulatory body, ASA, suggests that advertisements should be 'legal, decent, honest, and truthful' in that they:

- must not contain anything that is likely to cause serious or widespread offence;
- must not cause fear or distress without justifiable reason;
- must contain nothing that is likely to condone or encourage violence or antisocial behaviour;
- must not condone or encourage an unsafe practice; and
- must not encourage consumers to drink and drive.[2]

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ETHICAL DILEMMA 8 A fitting approach to shoe selling?

You are the manager of an independent high street shoe store, specializing in fashionable shoes for men and women. Your staff comprises a small team of eight salespeople who all take part in selling shoes, checking and maintaining stock, and processing sales and orders. You run a pretty successful operation, but there is intense competition from major shoe-store chains as well as one or two other independent stores in the city where you are located. To motivate your staff, a couple of years ago you introduced an incentive scheme that gives employees 5% commission on everything they sell. This has worked pretty well—the store has maintained profitability and the employees are all fairly well paid.

You have recently hired a new salesperson, Lola, who has made quite an impact on sales. She not only seems to be enjoying a great deal of success selling shoes, but she has also proved to be popular with everyone in the store, including the customers. Since she has arrived, though, Lola has also been giving you some cause for concern. Although no one has complained about her, you have noticed that, at times, some of her successful sales techniques do not always involve her being completely truthful.

For example, on one occasion last week you noticed that she was serving a customer who was plainly unsure whether to purchase a particular pair of shoes. Lola obviously thought the shoes suited the woman, but to create a little more urgency, she said that the model the woman was interested in was the last pair in stock and that she did not think the store would be able to get any more for another month. However, you knew for certain that there were at least five or six pairs in the stockroom, and that reordering when they were sold out should only take a week. Still, the customer eventually decided to buy the shoes, and once she had made the decision, she seemed delighted with them.

Then yesterday, Lola was serving a man who obviously wanted a particular pair of shoes that he had seen in the window. She asked him his size (which was 43), but when she got to the storeroom she discovered that there was only a 42 and a 44 in stock. She asked you if you knew whether there was a 43 anywhere but you had to tell her no—you had sold the last pair yourself only the day before. Undeterred, Lola picked up both the 42 and the 44 and took the shoes back out to the man. Giving him the 42 first, she said to him that the company did not sell 'odd' sizes and they only came in 42 and 44. The customer tried on the 42, but obviously found them too small. While he was doing this though, Lola took out the 44 and carefully placed an additional insole in the bottom of the shoe. 'Give this a go,' she said handing the shoes to the man. 'This should do the trick.' To his delight, they fitted fine and he said he would take them. At this point, Lola mentioned that because the manufacturer did not do 'odd' sizes, she had put insoles into the shoes, which would cost an additional €3. Still pleased with the shoes, the man paid for both the shoes and the insoles and left.

You were unsure what to do about the situation. Although the customers seemed pleased with their purchases, Lola was clearly lying to them. Would there be any long-term repercussions of such practices? And what would the rest of the team think about it? Would they start copying Lola's successful sales techniques?

QUESTIONS

1. What are the arguments for and against Lola's actions?
2. Do you think such practices are common in sales situations? What would you think if you were a co-worker or a customer of Lola's?
3. To what extent do you think your incentive scheme has contributed to Lola's actions?
4. How would you approach this situation as Lola's manager?

Visit the online resources for a suggested response.

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Most of the complaints received by the ASA refer to advertisements that have caused offence, such as those featuring nudity or shocking images of one sort or another. A 2014 advertisement from the Irish bookmaker Paddy Power, for example, became the ASA's most complained about non-broadcast advert ever because of its offensive references to the murder trial of Olympic athlete Oscar Pistorius. The advert proclaimed, 'it's Oscar time', 'money back if he walks', and 'we will refund all losing bets on the Oscar Pistorius trial if he is found not guilty'.

THINK THEORY

Take a look at the ASA UK website (https://www.asa.org.uk) where you will find details of recent rulings. Have a look through some of the cases and consider the extent to which they contravene an ethics of duty presented in Chapter 3.

Visit the online resources for a suggested response.

The argument about social and cultural impacts, however, also concerns the aggregate impact of marketing communications in society rather than just being specifically focused on particular campaigns or techniques. There are a number of strands to this argument, but the main objections appear to be that marketing communications:

- **Are intrusive and unavoidable.** We are exposed to hundreds of adverts every day, on the television and radio, in newspapers and magazines, on the internet, in stores, on billboards, on the side of buses, at concerts, on tickets and programmes, on athletes and footballers, to the extent that almost no public space is free from the reach of corporate branding, sponsorship, or promotion. In her bestselling book about the ubiquity of branding, *No Logo*, Naomi Klein (2000) highlighted the increasing incursion of brands into previously unbranded space including schools, towns, streets, politics, even people (think, for example, about the popularity of brand logos as templates for tattoos).
- **Create artificial wants.** The persuasive nature of advertising has long been argued to make us want things that we do not particularly need (e.g. Packard 1957). The economist John Kenneth Galbraith was perhaps the most popular advocate of this argument, suggesting that firms generate artificial wants in order to create demand for their products (Galbraith 1974). For example, one might question whether we really felt a need for products such as personal computers, mobile phones, or cars that talk to us before companies developed the technology and set out to create a demand for them. The problem here, though, is in defining what are 'real' wants and needs and what are 'artificial' or 'false' ones. Jean Baudrillard (1997), for example, condemns Galbraith's 'moralizing idealism' and his depiction of the individual as a passive victim of the system, suggesting instead that the consumer is an active participant seeking to satisfy very real needs for social identity and differentiation through consumption.
- **Reinforce consumerism and materialism.** More broadly then, the saturation of everyday life under a deluge of marketing communications has been argued to generate and perpetuate an ideology of materialism in society, and to institute in our culture an identification of consumption with happiness (Pollay 1986). Cultural studies authors, as well as the popular press, now commonly depict modern Western society as being a 'consumer society', where

not only is consumption the principal site of meaning and identity, but it also increasingly dominates other arenas of life such as politics, education, health, and personal relations (e.g. Featherstone 1991; Baudrillard 1997). Thus, emotional or psychological ills that might threaten our self-identity, such as a broken relationship, depression, or low self-esteem, might be more readily addressed through 'compensatory consumption' than other more traditional channels (Woodruffe 1997; Kim and Rucker 2012). As Smart (2010: 4) argues, Western-style consumerism has also increasingly spread to other countries, especially China and India, making it 'the most persuasive and pervasive globally extensive form of cultural life, one to which more and more people around the world continue to aspire.'

Consumerism An attitude that makes consumption the centre of meaning and identity construction.

- **Create insecurity and perpetual dissatisfaction.** Ashamed of your smartphone? Embarrassed by your cheap brand of coffee? Guilty that your baby is not clothed in the most advanced (and expensive) diapers? Worried that your feminine sanitary products will let you down? These are all typical worries and insecurities that advertising campaigns identify and perpetuate in order to enhance demand. Take the issue of planned obsolescence. Aside from a desire to have the most cutting-edge technology, Apple openly admitted in 2017 that older iPhone models were deliberately slowed down through software updates to coincide with new product launches.[3] Hence, critics of advertising have further contended that by presenting glorified, often unattainable images of 'the good life' for us to aspire to, marketing communications create (and indeed rely on creating) constant dissatisfaction with our lives and institute a pervading sense of insecurity and inadequacy (Pollay 1986). In their exploration of marketing and ideology, Eckhardt, Varman, and Dholakia (2018) explore marketing practices that promote 'lovable' brands, while softening hard capitalist agendas and committing acts of violence and oppression in background value chains. Insecurity is thus an issue that stretches far beyond the end consumer.
- **Perpetuate social stereotypes.** Finally, marketing communications have also been argued to spread socially undesirable stereotypes of certain categories of person and lifestyle (see Pollay 1986; Schroeder and Borgerson 2005), such that women are always either housewives or sex objects; health, beauty, and happiness are only possible with 'perfect' body shapes; 'nuclear' families become associated with 'normality'; and racial minorities, the disabled, and gay and lesbian people become excluded from the picture of 'normal' life. While the usual defence to this argument is that marketers reflect the social norms of target audiences (Greyser 1972), it is clear that it is in companies' own interest to depict images desired by their customers. For example, Unilever's commercials for its best selling skin whitener 'Fair & Lovely' have caused a great deal of controversy in some countries because they suggest that fairer-skinned women can find better husbands and jobs than those with darker skins. While women's groups have criticized the advertisements as 'demeaning', 'racist', 'colourist', and 'discriminatory', the company has pointed to research showing that women want to use whiteners because fair skin is seen as an aspirational step up the social and economic ladder (Luce and Merchant 2003; Karnani 2007).

Such criticisms have been common since at least the 1970s. Nonetheless, many social commentators also contend that, as a society, we have never been so informed and educated about the role of advertising, promotion, and branding as we are today, and that it provides us with much-needed enjoyment and escapism (Holbrook 1987). Accordingly, it would appear that consumers are now much more media literate and less likely to be the 'victims' of marketing communications than when these criticisms were first raised. To some extent, the wider ethical case against marketing communication as a social phenomenon is fairly difficult to uphold, not least because many of the criticisms often essentially boil down to criticisms of capitalism (Eckhardt, Varman, and Dholakia 2018; Phillips 1997). This is not to deny that these problems with marketing communications are significant; more that if we accept capitalism, we must also to some extent accept these problems.

THINK THEORY

Think about the question of whether marketers should be responsible for the aggregate consequences of their actions. Which ethical theories do you think would typically be used to argue either for or against this proposition?

Visit the online resources for a suggested response.

Ethical issues in pricing

It is perhaps unsurprising that issues of pricing are often among the criticisms levelled at companies, for it is in pricing that we most clearly see the potential for the interests of producers and consumers to diverge. While consumers may desire to exchange the goods and services they require for as little cost as possible, producers are likely to want to maximize the amount of revenue they can extract from the consumer. Pricing issues are thus central to the notion of a fair exchange between the two parties, and the *right to a fair price* might typically be regarded as one of the key rights of consumers as stakeholders.

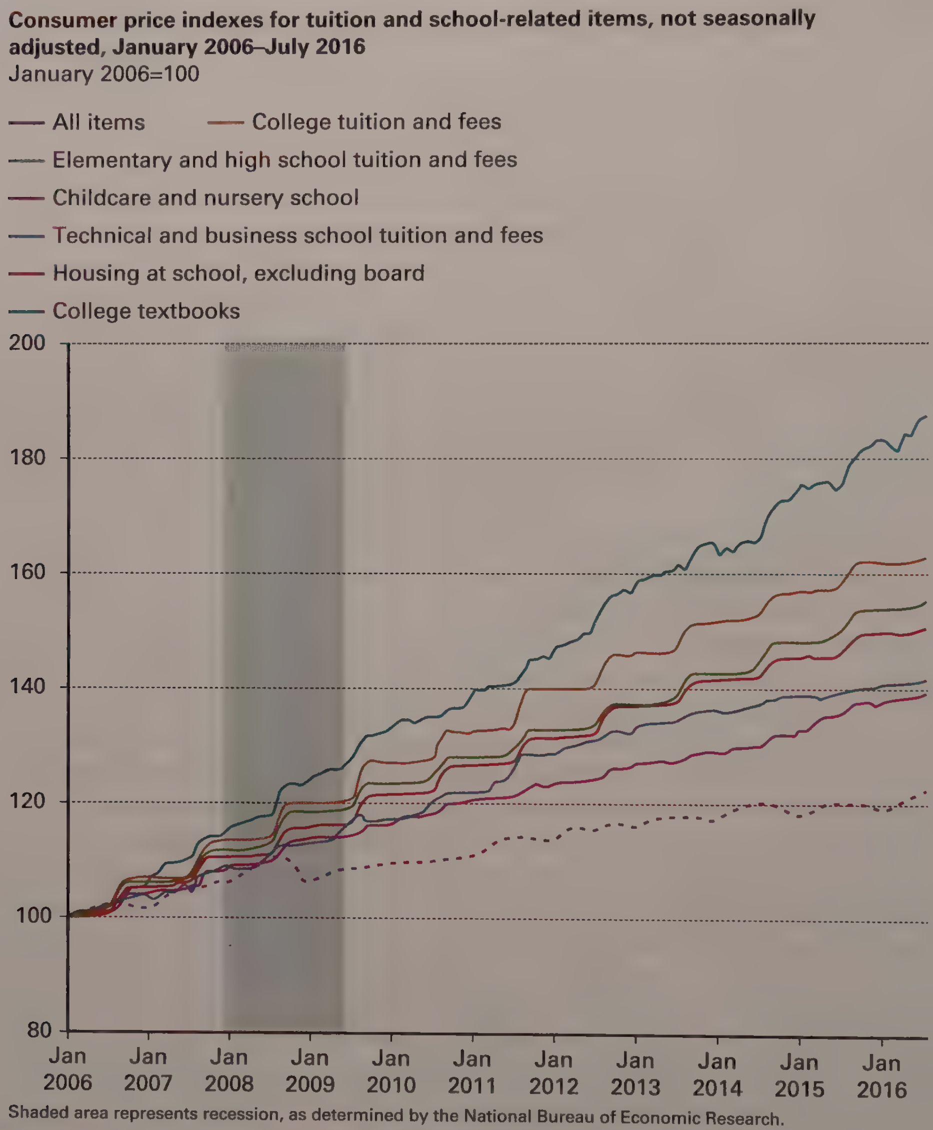
The concept of a fair price is open to a number of different views, but typically is thought of as the result of a mutual agreement by the buyer and seller under competitive conditions. Thus, under neoclassical economics, prices should be set at the market equilibrium, where marginal cost equals marginal revenue. However, the assumption here is that buyers and sellers can leave the market at any time, and that there are a number of competing offerings in the market. Problems of fairness arise then when prevailing market conditions allow companies to exploit an advantageous market position, such as a monopoly, or where consumers are unable to leave the market, perhaps because they have an irrevocable need for a product, such as for housing, food, or medicine.

In most countries, there are regulatory agencies in place to police market distortions of this kind. In Europe, for instance, organizations, such as the Bundeskartellamt (Federal Cartel Office) in Germany and the Autoriteit Consument en Markt (Authority for Consumers and Markets) in the Netherlands, provide national protection, while the Directorate-General for Competition of the European Commission deals with pan-European issues. In Japan, a Fair Trade Commission deals with such issues, and in China enforcement is handled through the Ministry of Commerce. However, ethical problems still arise in different countries, either because the distortions are opaque, or because market conditions fail to explain the perceived unfairness of prices.

There are four main types of pricing practices where ethical problems are likely to arise:

- **Excessive pricing.** Sometimes known as *price gouging*, the idea of an 'excessive' price rests on the assumption that the fair price for goods and services has been exceeded. While this may well be due to prevailing market conditions, as discussed above, the perceived fairness of a price may also depend on other factors, such as the relative costs of the producer, or the price charged to other consumers. For example, our readers will certainly be familiar with debates around the pricing of higher education. **Figure 8.3** shows that prices of college tuition and fees in the US have nearly doubled in the last ten years, with prices sitting well above average consumer prices since 1978. As gaining a

Figure 8.3 Per cent changes since 2006 for college tuition and fees in the US



Source: Bureau of Labor Statistics, U.S. Department of Labor, The Economics Daily, College tuition and fees increase 63 percent since January 2006 on the internet at https://www.bls.gov/opub/ted/2016/college-tuition-and-fees-increase-63-percent-since-january-2006.htm (visited 2 October 2018) university degree is a prerequisite for many career paths, such pricing is possible because the end consumer of college education, the student, ultimately pays the price for good employment prospects.

- **Price fixing.** The problem of excessive pricing is probably most difficult to address when, rather than being the actions of one single firm, it occurs as a result of collusion between competing firms to fix prices above the market rate. This is illegal in Europe, the US, and most other parts of the world, but difficulties in detection and conviction mean that many instances of price fixing go unnoticed. However, the last few years have seen an intensification of investigations into price fixing. For example, Apple was engaged in a long-running court case in the US in the 2010s regarding an alleged agreement it made with five of the largest American publishing houses to prevent e-books from being sold at less than $14.99 (Vaara 2014).
- **Predatory pricing.** A further problem of anticompetitive practice can occur when a firm adopts the opposite course of action, and rather than charging *above* market rate, sets a price significantly *below* the market rate in order to force out competition. Known as predatory pricing, this practice allows firms with a size or other advantage to use their power to eliminate competitors from the market so that more favourable market conditions can be exploited. The above-mentioned case involving Apple in fact also involved allegations of predatory pricing. That is, Apple's agreement with e-book publishers was a response to Amazon's practice of selling e-books from the same five publishers for $9.99, which was often below their wholesale prices. As a result, Amazon, with its Kindle reader, had a market share of 99% of the e-book market by the time Apple attempted to enter the market with its iPad in 2010. Arguably, Apple had engaged in price fixing as a result of Amazon's strategy of predatory pricing (Auletta 2012)!
- **Deceptive pricing.** Finally, unfair pricing can also occur when firms price in such a way that the true cost to consumers is deliberately obscured. For example, in 2014 low-cost air carrier Southwest Airlines was fined by the US authorities for advertising cut-price flights that were not actually available on its website at the advertised price. Other airlines, too, have been found to advertise prices that were only available for a small percentage of flights, with substantial booking restrictions, and with no acknowledgement of the additional taxes and fees that would be levied, thereby deceiving consumers into thinking prices were lower than they actually were. Given that advertised prices represent a claim on the part of producers, deceptive pricing can be assessed in the same way as deception in marketing communications.

Clearly the issue of pricing is crucial when it comes to assessing and protecting the relative rights and responsibilities of consumers and companies. As marketing communications are becoming increasingly transparent in the online world, perhaps we are seeing the balance of power shift more towards consumers. Take price comparison sites such as Expedia and Trivago, which enable consumers to compare prices across hotel rooms quickly and cheaply. These sites, often the first point of call for many when booking a holiday, provide consumers with an abundance of information and improve price transparency across competing brands. As these examples show, much of the activity associated with ethical practice in pricing also concerns the relationships between firms and competitors, a theme we examine further in Chapter 9.

THINK THEORY

Fairness in pricing will obviously depend on how we define fairness. One way we can do this is by using Rawls' theory of justice (see Chapter 3). How would the practices outlined here be assessed according to this theory?

Visit the online resources for a suggested response.

Ethical issues in placement (channels of distribution)

In the final area of marketing management, channels of distribution or placement, we are concerned with the ethical issues and problems that occur in the relationships between manufacturers and the firms that deliver their products to market, such as wholesalers, logistics firms, and retailers. This is often referred to as the *product supply chain.* Clearly these issues fall outside of the remit of consumers per se. Most of Chapter 9 is devoted to such relationships between firms and their suppliers, so here we will just mention that ethical problems clearly arise in this context—for example, when retailers demand 'slotting fees' from manufacturers in order to stock their products, or when assessing the environmental impact of different logistics systems.

ETHICAL ISSUES IN MARKETING STRATEGY

Marketing strategy is primarily concerned with the decisions of market selection, targeting, and positioning. The targeting of markets is central to marketing theory and practice, and the choice of specific groups of consumers (or market segments) to target has been carefully refined over the years by companies eager to focus their efforts on 'attractive' segments, characterized by factors such as high profitability, low competition, or strong potential for growth. As marketers have become more adept at targeting specific groups of consumers—and even sometimes individual consumers, as we shall see later in **Ethics in Action 8.1**—important criticisms have emerged. In particular, critics tend to be concerned over potential violations of the consumer's *right to fair treatment.* This violation can happen in two main ways:

8

- **Consumer vulnerability.** Some target markets are composed of consumers who are deemed 'vulnerable' in some way, such as children, the elderly, the poor, or the sick, and marketers may unfairly take advantage of this vulnerability to exploit consumers.

Consumer vulnerability The state of being unable to make an informed, reasoned decision about a product purchase.

- **Consumer exclusion.** Certain groups of consumers may be discriminated against and excluded from being able to gain access to products that are necessary for them to achieve a reasonable quality of life.

Targeting vulnerable consumers

If we begin with the targeting of vulnerable consumers, it is evident that this concern rests largely on the perceived right to fair treatment for consumers, which imposes certain duties on sellers. Specifically, arguments criticizing unfair targeting practices are based on the degree of *vulnerability of the target*, and on the *perceived harmfulness of the product* to those consumers (Smith and Cooper-Martin 1997).

Vulnerability of the target is somewhat difficult to determine here, and to some extent will be contextually defined. Clearly, though, there is a case for saying that some consumers are less capable than others of making an informed, reasoned decision about whether to purchase a product. There are a number of reasons why consumers might be vulnerable, such as because they:

- Lack sufficient education or information to use products safely or to fully understand the consequences of their actions.
- Are easily confused or manipulated due to old age or senility.
- Are in exceptional physical or emotional need due to illness, bereavement, or some other unfortunate circumstance.
- Lack the necessary income to competently maintain a reasonable quality for life for themselves and their dependants.
- Are too young to make competent independent decisions.

Consumer vulnerability is often said to give rise to a *duty of care* on the part of sellers. Where it is possible for a seller to exploit the vulnerability of a potential customer—for example, where a pharmaceutical company might be in a position to charge an excessively high price for life-saving medications, or an insurance salesperson might be able to exploit the financial illiteracy of a potential investor by misrepresenting the terms and conditions of an investment—it can be argued that the seller has an inherent duty to act to respect the interests of the consumer in addition to the interests of themselves and their company.

For example, one of the main groups typically agreed to be vulnerable in some way are young children. A child of four or five might reasonably be said to lack the cognitive skills necessary to make entirely rational choices. Therefore, it is perhaps not surprising that the direct targeting of young children, especially for toys, has been the subject of much criticism over the years (Crane and Kazmi 2010). It is not so much that the children themselves purchase the products targeted at them, but that advertisers seek to encourage and take advantage of the 'pester power' that children have over their parents. Practices such as daytime television advertising for toys, and merchandising tie-ups with children's movies and computer games, like *Star Wars* and *Frozen*, might be said to take advantage of young children, who are highly impressionable, incapable of distinguishing the persuasive intent of advertising, and cannot understand the usual limitations of family purchasing budgets. The development of commercially sponsored websites containing games, promotions, and contests designed for children (often with brands as an integral element of the game as a game piece, prize, or secret treasure) has raised further concerns around the notion of 'advergaming' and similar practices that blur the boundary between advertising and entertainment directed at children (Moore 2004; An, Jin, and Park 2014). While one could maintain that it is the responsibility of parents as the ultimate purchasers to resist the pestering of their children, this does not detract from the criticism that by directly targeting a vulnerable group, advertisers might be guilty of violating consumer rights through deliberate manipulation and treating children only as means to their own ends (De George 1999: 283). This issue is further compounded by the quickening pace of smartphone adoption among children, with most children receiving their first smartphone between the ages of 10 and 12, enabling them to access online content without parental supervision.[4]

Still, there is the difficulty here in deciding at what age children can be legitimately regarded as able to make a rational, informed decision. Although there is considerable controversy over research results, it is apparent that even very young children tend to recognize and recall advertising very well, but it would appear that they do not have a good understanding of its persuasive intent until they are around eight years old (Gunter Oates and Blades 2005)—but even then they may not invoke that understanding when forming judgements (Moore 2004). Many countries have actually introduced legislation restricting marketing to children, although these restrictions vary enormously between countries. **Table 8.2** provides a comparison in restrictions placed on marketing unhealthy food to children across different geographies, demonstrating the need for organizations to tailor their marketing communications to local contexts. And, as this all suggests, the debate about advertising to children has been particularly pronounced in the context of food, given escalating concerns about obesity and other health problems among children.

Such challenges have led to an escalation in *industry self-regulation*. By this, we mean efforts by food companies to establish their own controls over how, when, and where they market to children. Indeed, in a comprehensive review of regulatory efforts across more than 50 countries, Hawkes and Lobstein (2011) showed that efforts to curb food advertising to children have initially focused on self-regulation from business rather than new government restrictions. One prominent example is the initiative of UNESDA, the European soft-drinks industry body, which includes Coca-Cola and PepsiCo. This commits companies to refrain from advertising soft drinks to children under the age of 12 across all print, TV, and digital media and has achieved a level of 95–100% compliance among its members.[5] However, there is growing evidence to suggest that many self-regulatory initiatives have limited effect, leading to calls for enhanced legislation (Roberts et al. 2014).

The issue of the perceived harmfulness of the product is also a critical one in assessing the ethics of particular targeting approaches. Although there may be general social unease with the targeting of vulnerable groups, whatever the harmfulness of the product, it is perhaps unsurprising that much of the literature dealing with ethics and targeting has focused on products with a clear and present potential to do harm, such as cigarettes and alcohol (Smith and Cooper-Martin 1997). By focusing on such products, the ethical arguments shift somewhat from a focus on rights and duties towards a greater focus on consequences. Hence, the issue is less that taking advantage of consumer vulnerability is wrong in and of itself, but that it is primarily wrong only if the consumer might be expected to suffer in some way. For instance, the issue of selling sub-prime mortgages (a theme we examined in Chapter 6) came to prominence in the wake of the financial crisis in 2008. The devastating consequence of people losing their homes highlighted key questions about the ethics of targeting home purchasers who could not afford the mortgages they were being sold.

Consumer exclusion

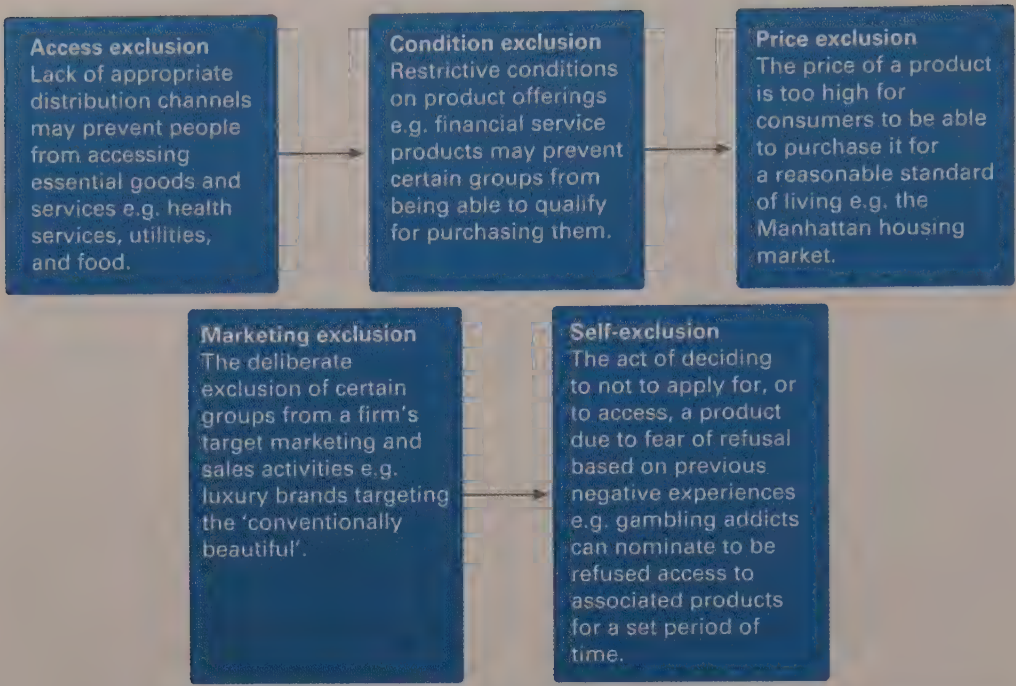
Some criticisms of marketing strategy focus not on who *is* targeted but on who *is not* included in the target market. In some cases, this can lead to accidental or even deliberate exclusion of certain groups of consumers from accessing particular goods and services that might be deemed necessary for them to maintain a reasonable quality of life, thus exacerbating social exclusion and other problems. This problem has come to particular prominence in recent years, with widespread debates around, for example, financial exclusion of poor families, lack of access to affordable water and other amenities in undeveloped regions, and the exclusion of low-income

Table 8.2 Restrictions on marketing unhealthy food to children

Country	Mandatory/ Voluntary	Age of children	Media covered	What is restricted?
Australia	Voluntary	Under 14 (fast food) Under 12 (food and beverages)	TV, radio, print, cinema, internet sites. Fast food includes newspaper, magazines, outdoor billboards, emails, interactive games as well.	Advertising must represent 'healthier choices' and encourage good dietary habits and physical activity.
Canada	Voluntary	Under 12	TV, radio, print, internet, mobile-media.	Advertising primarily directed to children must be for 'healthier choices'.
Canada—Quebec	Mandatory	Under 13	TV, radio, print, internet, mobile phones, signage, and promotional items.	Advertising directed to children is banned.
Chile	Mandatory	Under 14	All forms of marketing intended to promote consumption of a product.	Advertising banned between 6am and 10pm on TV and film. Advertising must not be directed to children.
Ireland	Mandatory (TV) and voluntary (other)	Under 18	TV, print media, billboards, electronic media, email, SMS.	TV advertising for high fat, salt, and sugar products banned during children's programmes (>50% under 18). Advertisements must carry a health warning.
Mexico	Mandatory	Ages 4–12	TV, cinema.	Advertising banned between 2.30 and 7.30pm weekdays and 7am and 7.30pm weekends, where the audience is >35% children
New Zealand	Voluntary	Under 14	All media.	Advertisements must not 'target' children or be placed in media where children are >25% of the audience or in places where children gather.
South Korea	Mandatory	Ages 4–13	TV.	Advertising banned on TV between 5 and 7pm, as well as during any children's programme.
Sweden	Mandatory	Under 12	TV.	Commercial advertising 'designed to attract the attention of children' is banned.
Taiwan	Mandatory	Under 12	TV.	Advertising banned between 5 and 9pm on dedicated children's channels.
United Kingdom	Mandatory	Under 16	TV, radio, print media, mailings, emails, SMS, catalogues, outdoor billboards and posters, cinema, video, DVD, non-broadcast electronic media.	Advertising banned where the audience is >25% children or advertising is directed to children under 16.

Source: Obesity Policy Coalition (2018)

Figure 8.4 Different forms of consumer exclusion



Source: Originally published in Elaine Kempson and Claire Whyley, *Kept out or opted out? Understanding and combating financial exclusion*, 1999. Re-published with permission of Policy Press (an imprint of Bristol University Press, UK)

neighbourhoods from access to fresh and healthy food. And as **Figure 8.4** shows, exclusion can take a variety of forms (Kempson and Whyley 1999).

In the case of financial products, evidence suggests that in countries such as the US something like 28% of the population, or about 88 million people, are either unbanked (they have no checking or savings account) or under-banked (they have some relationship with payday lenders or other unregulated financial providers; Glinska 2014). At least some of this is due to the spread of the practice of 'redlining', whereby particular areas in towns and cities, where the populace, predominantly, have low incomes and very poor credit ratings, are denied access to financial products, primarily through marketing- and condition-exclusion. By effectively drawing a red line around particular geographical no-go zones, critics charge that companies can be said either to be discriminating against consumers (by judging them on their residential location rather than individual merit) or to be treating them unfairly by preventing them from participating in normal market activity. This practice can be particularly problematic when consumers are subsequently forced to enter into arrangements with unscrupulous, sometimes illegal, substitute providers of these products, such as loan sharks and unregistered moneylenders. In the huge Dharavi slum in Mumbai, for example, the cost of credit was noted as being over 50 times more than that found in a rich neighbourhood of the city, while potable water is almost 40 times more expensive (Prahalad and Hammond 2002). Such disclosures have given rise to increasing interest in the role of markets in addressing poverty and development, particularly through providing access to new forms of finance. This is a theme we pick up on later in the chapter.

ETHICAL ISSUES IN MARKET RESEARCH

The final area where we need to examine the rights of consumers is in relation to market research. Market research involves the systematic collection and analysis of consumer data in order to support decision-making and to help identify consumer problems and opportunities (Malhotra 1992). The main ethical issue at stake here is one of the possible threats posed to rights to **consumer privacy** as, through their marketing research activities, organizations may collect, use, and sell data without consumer consent. Surveys suggest that most consumers are concerned about the type, accuracy, and deployment of information held about them, but it appears that many are also unaware of the regulations in place to protect them and make only limited use of strategies to avoid infringement of privacy (Dommeyer and Gross 2003). While consumers tend to be less concerned about data when it is collected in its aggregate form, the extent to which organizations are now able to distil data down to make individual and personal inferences through 'micro-targeting' leaves many feeling uneasy. For instance, consider the following analysis of the individual record of one supermarket loyalty cardholder ('Eve') across 1,551 purchase transactions over a two-year period. Would you feel comfortable for researchers to ascertain this level of detail about you based on your purchase history?

> 'Eve appears to be conscious of her appearance. The food purchases are biased towards the low-calorie and low-fat products, though the sheer volume of these and their association with ancillary products does not augur well for a healthy diet. In the entire two years, Eve purchases only three fruit items. Unsurprisingly given her diet, we would suggest that Eve suffers from spots and/or bad complexion, as attested by a very high spend on blemish concealer and the occasional purchase of Clearasil! She is a large lady judging by the size of the tights purchased . . . From June 1999 onwards she has problems with her feet and there are regular purchases of insoles, foot deodorants, corn plasters and other Scholl products. She suffers from hay fever. When she gets a cough or cold (approximately once a year) she takes several weeks to shake it off. She occasionally buys vitamin pills . . . ' (Smith and Sparks 2004: 377–8.)

Consumer privacy The right of a consumer to control what information companies can collect about them and how it is stored, used, and shared.

Many of the most pressing issues of consumer privacy are related to dangers posed by digital data, social media, and online privacy. The combination of technological innovation and cultural change has enabled marketers to collect unprecedented quantities of 'big data' about almost every aspect of our lives, from what we like to do and where we go, to who our friends are and what we think of them. Hence, Milne and Culnan (2004: 16) argue that, 'Disclosing information to an online organization requires a degree of trust because of information asymmetries that limit the consumer's knowledge about the organization's information practices and whether their personal information may be used in ways that could result in harm to the consumer, or lead to unwanted future solicitations, credit card theft, or even a hijacking of one's online identity.'

Questions about whether technology giants such as Facebook or Google should be allowed to use and commercialize their users' data is an ongoing ethical—and often legal—debate, as we saw in Chapter 5. Data is big business and consumers are often unaware of how their online activity is tracked, analysed, and deployed. For instance, research on Levis.com found that the amount of consumer data collected and shared with third parties is much higher than what is described in the Levi's privacy policy (Dwyer 2009). Yet, behavioural targeted advertising is only becoming more commonplace as marketers seek to grab consumer attention more adeptly. Behavioural advertising refers to advertising that is displayed to consumers 'based on previously captured behavioural data about the user, for example, by displaying advertising related to recent searches on websites or items looked at in an online shop' (Eagle and Dahl 2015: 109). Through market research involving the use of cookies (data files that sit in your hard drive), advertisers are able to access consumer data in the form of demographic details (e.g. age, gender), geographic information (e.g. the city you live in, or the area where you work; this is termed 'location-based marketing'), or psychographic variables (e.g. sexual orientation, political affiliations) to better target their communications. As we see in **Ethics in Action 8.1**, this activity raises some serious privacy concerns, particularly around the extent to which consumers are able to 'opt out'. However, new legislation, such as the General Data Protection Regulation (GDPR), which came into force across Europe in 2018, is designed to place more control for data use back into the hands of consumers and citizens.

Ethics in Action 8.1 **Smartphone data tracking is more than creepy—here's why you should be worried**

Smartphones rule our lives. Having information at our fingertips is the height of convenience. They tell us all sorts of things, but the information we see and receive on our smartphones is just a fraction of the data they generate. By tracking and monitoring our behaviour and activities, smartphones build a digital profile of shockingly intimate information about our personal lives.

These records aren't just a log of our activities. The digital profiles they create are traded between companies and used to make inferences and decisions that affect the opportunities open to us and our lives. What's more, this typically happens without our knowledge, consent, or control.

New and sophisticated methods built into smartphones make it easy to track and monitor our behaviour. A vast amount of information can be collected from our smartphones, both when being actively used and while running in the background. This information can include our location, internet search history, communications, social media activity, finances, and biometric data such as fingerprints or facial features. It can also include metadata—information about the data—such as the time and recipient of a text message.

Each type of data can reveal something about our interests and preferences, views, hobbies, and social interactions. For example, a study conducted by MIT demonstrated how email metadata can be used to map our lives, showing the changing dynamics of our professional and personal networks. This data can be used to infer personal information, including a person's background, religion or beliefs, political views, sexual orientation and gender identity, social connections, or health. For example, it is possible to deduce our specific health conditions simply by connecting the dots between a series of phone calls.

Different types of data can be consolidated and linked to build a comprehensive profile of us; companies that buy and sell data—data brokers—already do this. They collect and combine billions of data elements about people to make inferences about them. These inferences may seem innocuous but can reveal sensitive information such as ethnicity, income levels, educational attainment, marital status, and family composition.

A recent study found that seven in ten smartphone apps share data with third-party tracking companies like Google Analytics. Data from numerous apps can be linked within a smartphone to build this more detailed picture of us, even if permissions for individual apps are granted separately. Effectively, smartphones can be converted into surveillance devices.

The result is the creation and amalgamation of digital footprints that provide in-depth knowledge about your life. The most obvious reason for companies collecting information about individuals is for profit, to deliver targeted advertising and personalized services. Some targeted ads, while perhaps creepy, aren't necessarily a problem, such as an ad for the new trainers you have been eyeing up.

But targeted advertising based on our smartphone data can have real impacts on livelihoods and well-being, beyond influencing purchasing habits. For example, people in financial difficulty might be targeted for ads for payday loans. They might use these loans to pay for unexpected expenses, such as medical bills, car maintenance, or court fees, but could also rely on them for recurring living costs such as rent and utility bills. People in financially vulnerable situations can then become trapped in spiralling debt as they struggle to repay loans, due to the high cost of credit.

Targeted advertising can also enable companies to discriminate against people and deny them an equal chance of accessing basic human rights, such as housing and employment. Race is not explicitly included in Facebook's basic profile information, but a user's 'ethnic affinity' can be worked out based on pages they have liked or engaged with. Investigative journalists from ProPublica found that it is possible to exclude those who match certain ethnic affinities from housing ads, and certain age groups from job ads.

This is different to traditional advertising in print and broadcast media, which, although targeted, is not exclusive. Anyone can still buy a copy of a newspaper, even if they are not the typical reader. Targeted online advertising can completely exclude some people from information without them ever knowing. This is a particular problem because the internet, and social media especially, is now such a common source of information.

Social media data can also be used to calculate creditworthiness, despite its dubious relevance. Indicators such as the level of sophistication in a user's language on social media, and their friends' loan repayment histories, can now be used for credit checks. This can have a direct impact on the fees and interest rates charged on loans, the ability to buy a house, and even employment prospects.

There is a similar risk with payment and shopping apps. In China, the government has announced plans to combine data about personal expenditure with official records, such as tax returns and driving offences. This initiative, which is being led by both the government and companies, is currently in the pilot stage. When fully operational, it will produce a social credit score that rates an individual citizen's trustworthiness. These ratings can then be used to issue rewards or penalties, such as privileges in loan applications or limits on career progression.

These possibilities are not distant or hypothetical—they exist now. Smartphones are effectively surveillance devices, and everyone who uses them is exposed to these risks. What's more, it is impossible to anticipate and detect the full range of ways smartphone data is collected and used, and to demonstrate the full scale of its impact. What we know could be just the beginning.

SOURCE

Vivian Ng and Catherine Kent. 2018. 'Smartphone data tracking is more than creepy—here's why you should be worried', *The Conversation*, 7 February.

QUESTION

Consider behavioural targeting and the implications this has for consumer privacy. Referring to Chapter 3, what duties do marketers have towards consumers in this context? How could unethical marketing research practice be overcome?

Visit the online resources for web links to useful sources of further information.

8

Another area that raises complex privacy concerns is the use of lifestyle DNA testing. As life expectancy continues to rise, a whole host of companies are offering us the opportunity to enjoy our years in good health. By simply purchasing a 'do-it-yourself' kit that involves a simple cheek swab and sending your results back to a lab, DNA testing kits are determining genetic makeup in nearly 1 in 25 American adults. The benefit? Well, such tests are used to identify certain traits related to your diet, metabolism, and skin, as well as revealing core details of your ancestry. As one DNA testing website claims, lifestyle testing can tell you 'what foods to eat and which to avoid . . . if you are good at processing alcohol and caffeine . . . if you should jog slowly or do high impact aerobics exercise'.[6] While such tests may be useful in developing more proactive measures to encourage a healthy and active lifestyle, the accuracy of the tests is still debatable, with many questioning the ethics and privacy concerns of revealing such sensitive data to a faceless organization.

GLOBALIZATION AND CONSUMERS: THE ETHICAL CHALLENGES OF THE GLOBAL MARKETPLACE

Convergence in consumer needs across different countries has been widely identified as one of the key drivers of globalization in business. Brands such as Coca-Cola, McDonald's, Microsoft, Sony, and Toyota, among others, have successfully been able to expand their activities into multiple international markets, often necessitating little if any adaptation in their products to local tastes and preferences. These developments clearly extend many of the issues identified in the previous section to an international context, yet they also bring a new set of issues relevant to consumer stakeholders (Witkowski 2005). Broadly speaking, these expanded, reframed, and/or new challenges can be explained in relation to three main considerations:

- different standards of consumer protection;
- exporting consumerism and cultural homogenization; and
- the role of markets in addressing poverty and development.

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DIFFERENT STANDARDS OF CONSUMER PROTECTION

As we saw at the beginning of the chapter, international organizations such as the UN recognize a set of global rights for consumers. However, the fact remains that the level of protection offered to consumers varies considerably across the globe, in terms of both government regulation and the standards offered by companies. Globalization, therefore, offers firms the opportunity to exploit these differences, especially where the provision of higher standards of protection, such as those offered in developed countries, may be seen as an added cost burden that can be avoided in developing countries.

A good example is provided by the global tobacco industry. With markets in decline in most developed countries, tobacco firms have increasingly looked to developing countries for continued growth. Restrictions on the marketing of tobacco in Africa, Asia, and Latin America have frequently been less stringent than in North America and parts of Europe, giving companies more opportunity for concerted marketing campaigns direct to customers. Sales of cigarettes in developing countries have, therefore, escalated enormously, with China now representing the largest market globally for tobacco sales. In fact, recent World Health Organization (WHO) estimates have suggested that one in every three cigarettes smoked in the world is smoked in China, despite less than a quarter of Chinese consumers having a comprehensive awareness of the health hazards of smoking.[7] Other major markets now include emerging economies such as Russia, Indonesia, India, Turkey, and Vietnam among the top ten global consumers of cigarettes.[8]

Unsurprisingly, tobacco companies have been increasingly criticized for targeting cigarettes at customers in developing countries, especially as such customers might have less knowledge of health problems, be more susceptible to inducements to purchase (such as free gifts), and be less likely to be protected through regulations on advertising (Brodwin 2013). A major response to this situation emerged with the development of the World Health Organization Framework Convention on Tobacco Control (FCTC), which came into force in 2005. This commits signatory countries to a range of measures designed to reduce tobacco demand and supply, including a ban on tobacco advertising, promotion, and sponsorship. As of 2017, 187 countries had signed up to the framework, making it one of the most widely embraced treaties in UN history.[9] Such a concerted international response is rare, however, and for products such as food and drink, medicines, and automotives, substantial differences persist across countries.

EXPORTING AND CULTURAL HOMOGENIZATION

A second problem associated with the drive by companies to expand into new international markets with brands already successful at home is that they frequently come up against the accusation that they are not only exporting products but are also ultimately exporting a whole set of cultural values. A prominent focus of debate here is the potential for mass marketing of global products and brands to contribute to the erosion of local cultures and the expansion of *cultural homogenization* (Baughn and Buchanan 2001; Witkowski 2005). While colonialism and global trade have long provided a context for cultural exchange or imposition, the unprecedented international success of global brands has led to increasing concerns over rising standardization and uniformity (Klein 2000).

There are few high streets in the cities of Europe, Asia, or North America now without the ubiquitous McDonald's or Starbucks outlets, or where the shops do not stock the same global products, such as the Apple iPhone, Diesel jeans, Heineken beer, or L'Oréal cosmetics. These brands have become symbols of global consumer culture, providing consumers with a consistent set of associations, or a 'brand promise', in touchpoints across geographies. Even in the entertainment and media industries, Hollywood movies, recording artists such as Beyoncé, and even sports stars like Cristiano Ronaldo or Maria Sharapova have become global brands that have driven out interest in local cultural products. In their defence, global marketers point to the fact that they have never forced consumers to buy their products, and that their success is simply based on giving people what they want.

Despite the obvious cost benefits of adopting a standardized rather than adapted approach to marketing across countries, cultural homogenization *sells*. Each year, consultancy firm Interbrand quantifies and ranks the world's most valuable brands to provide its 'Top 100' list of international brands.[10] Such quantification of brand value estimates the Apple brand to be worth $184 billion, Facebook—the fastest growing brand—at $48 billion, and Starbucks at $8 billion. Such analysis also enables us to see that the majority of the top global brands are dominated by US companies, followed by European brands, with just a handful of Asian companies, such as Toyota, Honda, Sony, and Samsung, appearing in the list. The 'hegemonic' (culture-shaping) influence that global brands can exert upon local markets, consumer tastes, and consumption practices has been the subject of much critique, particularly given that the majority of these powerful brands are Western, or more specifically American. Yet as Thompsen and Arsel (2004: 639) found in their analysis of Starbucks, rather than destroy local competition and local nuance, in the United States at least, local coffee shops actively rely upon an '*anti*-Starbucks positioning (i.e., support your local coffee shop) and specifically design their services to offer an alternative to Starbucks's trademark ambiance.' We will further explore in Chapter 9 some of the more deliberate and aggressive removal of incumbent domestic rivals by multinational firms, but at least we can reflect on the double-edged sword of cultural homogenization.

Whatever the intentions behind international marketing efforts, the drive for global dominance has meant an intensification of marketing activity in countries once largely immune to mass marketing activities. The increasing predominance of consumerist ideologies in emerging and transitional economies such as China and the countries of central Europe has therefore raised considerable debate, particularly around the role of advertising in promoting consumerism (e.g. Zhao and Belk 2008). These developments highlight a number of complex ethical problems, particularly at a time when Western modes of consumption are increasingly subject to criticism due to their role in fostering socially and environmentally undesirable consequences.

THINK THEORY

Compare arguments based on consequences with arguments based on rights and justice in assessing the impact of a Starbucks launch in a developing country context. What recommendations do you think proponents of these theories would have for responsible marketing practice in such a context?

Visit the online resources for a suggested response.

THE ROLE OF MARKETS IN ADDRESSING POVERTY AND DEVELOPMENT

Finally, globalization also raises the prospect of firms potentially targeting their products at a much wider, but far poorer, market of low-income consumers in developing countries. This issue has received considerable impetus in recent years with the introduction of the *bottom of the pyramid* concept (Kolk, Rivera-Santos, and Rufín 2014). Developed mainly by C.K. Prahalad and his colleagues, this idea essentially urges multinationals to tap into the 'fortune at the bottom of the pyramid' of economic development by offering innovative products and services to the world's poorest people in Africa, Asia, and Latin America. As Prahalad and Hammond (2002: 48) put it: 'By stimulating commerce and development at the bottom of the economic pyramid, MNCs could radically improve the lives of billions of people and help bring into being a more stable, less dangerous world. Achieving this goal does not require multinationals to spearhead global social development initiatives for charitable purposes. They need only act in their own self-interest, for there are enormous business benefits to be gained by entering developing markets.'

In the global marketplace, this idea has gained significant attention and there is clearly a case to be made for advancing poverty reduction by developing what the United Nations Development Programme (UNDP) calls 'inclusive markets' in less-developed countries and regions. Examples of successful initiatives include the provision of microcredit services for poor entrepreneurs in the informal sector in Brazil by Banco Real (owned by the Spanish multinational bank, Santander), the launch of a high-nutrition yoghurt product for poor children in rural Bangladesh by the French food company Danone, and the development of a low-cost laptop for schoolchildren in developing countries by the American microchip manufacturer Intel.

Despite garnering considerable enthusiasm, the bottom of the pyramid concept has also met with some important criticism. For example, Aneel Karnani (2007) has identified what he terms the 'mirage' of marketing to the bottom of the pyramid, suggesting that the profit opportunities are actually quite limited, and that firms looking to tackle poverty should focus on the poor primarily as producers rather than as consumers; as he contends, 'the only way to alleviate poverty is to raise the real income of the poor' (2007: 91). Certainly, there are few examples of firms actually generating anything like the 'fortune' that Prahalad promises, leading us to conclude that the drive towards more inclusive markets in developing countries probably relies as much on social purpose and corporate responsibility as it does on naked profit motivation—a point underscored by the relatively high proportion of non-profit social enterprises that have flourished in this niche (Karnani 2007). **Ethics in Action 8.2** explores this phenomenon in more detail in the context of microfinance.

CONSUMERS AND CORPORATE CITIZENSHIP: CONSUMER SOVEREIGNTY AND THE POLITICS OF PURCHASING

We said at the beginning of this chapter that changing expectations and improved protection of consumer rights had moved us away from the traditional conception of *caveat emptor*, or buyer beware. More now is expected of firms in terms of how they treat their customers. But what exactly would constitute truly ethical marketing in this sense? According to Craig Smith (1995), the most effective way to answer this question is by drawing on the notion of *consumer sovereignty*.

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CONSUMER SOVEREIGNTY

Consumer sovereignty is a key concept within neoclassical economics. It essentially suggests that under perfect competition, consumers drive the market; they express their needs and desires as a demand, which firms subsequently respond to by supplying them with the goods and services that they require. This gives rise to the idea that the customer is king—or, to put it another way, that consumers are sovereign in the market.

Real markets, however, are rarely characterized by perfect competition: consumers may not know enough about competing offerings to find out exactly where they can get the best deals (what economists call informational asymmetries); there may be very few competitors in some markets, thus limiting consumer choice; some firms may be able to take advantage of monopolistic positions to exploit consumers with high prices; and so on. Hence, in practice, there are

Ethics in Action 8.2 Targeting the poor with microfinance: hype or hope for poverty reduction?

Microfinance refers to the range of financial services targeted directly at poor customers who are normally unable to access traditional banking services. The reasons for the exclusion of the poor from mainstream banking include: their lack of formal employment, little access to collateral for loans, a perceived lack of creditworthiness, limited banking infrastructure in poor areas, and the unwillingness of banks to service small-ticket financial services. According to most reliable estimates, somewhere in the region of 2.5 billion people lack access to formal banking services.

Microfinance seeks to open the doors to poor consumers by developing financial services especially suited to their circumstances. The types of services offered range from small-scale loans (often referred to as 'microcredit'), to savings vehicles, insurance services, and money transfer services. It is microcredit, though, that has garnered the most attention to date. Pioneered in Bangladesh in the 1970s by the Grameen Bank and its founder, Muhammad Yunus (who, together, won the 2006 Nobel Peace Prize), microcredit is based on 'group lending' rather than collateral or legally enforceable contracts. That is, rather than covering the lender's risk with assets of the borrower and/or the threat of legal proceedings, borrowers are formed into small groups where they monitor one another through mutual trust, or are required to guarantee each other's loans.

Beyond microcredit, microfinance providers have increasingly offered a wide array of other services. As well as savings and loans, some microfinance institutions also offer education on financial issues and even social services. In recent years, attention has focused particularly on the introduction of innovative services provided through new information and communication technology (ICT). In 2007, for instance, Vodafone's Kenyan subsidiary Safaricom Kenya launched a mobile banking service, M-Pesa, enabling money transfers based on text messaging and transforming financial inclusion in the region.

Building a path to poverty reduction?

In many respects, the development of microfinance is clearly a success story in reducing vulnerability and dependence among client groups, even if it does not necessarily make them richer. And certainly, many small businesses supported by microcredit have thrived, bringing new and much-needed new goods and services to poor areas. A good example is provided by the Bangladeshi 'Info Ladies'; an initiative launched in 2008 and featured on the front cover of this very book! These women use interest-free start-up funds from the South Asian country's central bank in partnership with D.Net—a non-profit organization that recruits, trains, and supports women to help them buy bicycles and equipment—to provide vital services, be that connecting people, offering legal advice, and even providing medical support. Inspired by the Grameen 'telephone-ladies', who use Grameen Bank loans to buy mobile phones and offer phone services in Bangladesh, the Info Ladies travel by bike to remote and impoverished farming villages, bringing laptop computers and internet connections to thousands. The project has enabled around 100 Info Ladies to gain access to a sustainable income, providing a more organic, inclusive, bottom-up approach to poverty alleviation.[11] We can group key broad benefits of microfinance into the following three areas:

- **Financial inclusion:** Those towards the bottom of the economic pyramid are able to participate more fully in the formal economy and develop financial literacy and independence.
- **Economic growth:** Microfinance has helped borrowers to be less vulnerable to seasonal variations, such as the vagaries of crop success or failure.
- **Alleviating poverty:** Microfinance offers financial support to create self-employment opportunities for craft industries, microretail businesses (e.g. kiosks), and agricultural businesses.

Perpetuating poverty?

Despite the claims of its many enthusiastic supporters, the evidence on the impact of microfinance on poverty alleviation is limited. In part this is simply due to the relative youth of the industry, as

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well as the very real problem of determining poverty levels. Building on Roodman's (2011) famous assertion that microcredit has no bearing on poverty levels of consumers, researchers continue to investigate if, and how, microfinance reduces poverty. The conclusions do not always make for pleasant reading. For instance, Banerjee and Jackson (2017: 63) find that microfinance leads to 'increasing levels of indebtedness among already impoverished communities and exacerbated economic, social, and environmental vulnerabilities.' The challenges for microfinance can be grouped into the following three areas:

- **Hindering poverty alleviation efforts:** Microfinance diverts attention and resources away from other more proven ways of promoting economic development, e.g. employment through SMEs.
- **Difficulty in balancing business and social goals:** Microfinance remains expensive for businesses due to large numbers of small transactions and associated education and outreach services.
- **Exploitation of microlenders:** Research suggests that some banks may still be charging high interest rates and engaging in forceful collection of loans, public shaming, and communal harassment.

As one leading figure in the industry has remarked, 'To attract the money they need, microfinance institutions have to play by the rules of the market. Those rules often have messy results.' Despite this scepticism, microcredit has proved to be an extremely successful lending model. By 2016, there were an estimated 123 million consumers using microfinance institutions worldwide, for a loan portfolio of $102 billion. These are people who otherwise would have been unable to access financial services—or forced to rely on unscrupulous moneylenders in the informal economy—and most borrowers are found to be women living in rural areas. Southern Asia accounts for roughly 60% of all borrowers and has the highest growth rate, up 23.5% in 2016. Latin America and the Caribbean are also highly active in microfinance, with $42.5 billion in outstanding loans. It is clear that microfinance has the potential to improve the lives of many consumers, yet important questions still remain.

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QUESTION

To what extent is microfinance likely to have a significant impact on poverty alleviation? Where, in your opinion, should governments, civil society, and business be focusing their attention in addressing poverty?

Visit the online resources for web links to useful sources of further information.

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clearly some limitations to the power and sovereignty of consumers. In many situations, they simply cannot exercise informed choice.

These limitations in making informed choices are an ethical problem on two counts. First, it may well mean that individual transactions will be unfair in some way to certain consumers. And secondly, without consumer sovereignty, the economic system itself does not work efficiently and allocate resources fairly (see Smith 2014). In basic terms, this would imply that the economy serves business interests rather than those of consumers. By the same token, enhanced consumer sovereignty would, therefore, shift the balance of power *away* from business and *towards* the consumer. It is for this reason that Smith (1995) argues that consumer sovereignty represents a suitable ideal for marketing ethics to aspire to, and to be evaluated against. According to this argument, the greater the degree of sovereignty in a specific exchange or market, the more ethical the transaction should be regarded as. But how is consumer sovereignty to be assessed? For this, Smith (1995) proposes the consumer sovereignty test (CST) which is composed of three factors:

- **Consumer capability.** The degree of freedom from limitations in rational decision-making enjoyed by the consumer, for example from vulnerability or coercion.
- **Information.** The availability and quality of relevant data pertaining to a purchase decision.
- **Choice.** The extent of the opportunity available to freely switch to another supplier.

The CST, therefore, is a test of the extent to which consumers are capable, informed, and free to choose when confronted with a potential purchase situation. If sovereignty is substantially restricted—say, if the consumer's capability is reduced through vulnerability, or the option of switching is precluded due to high switching costs—then we might suggest that any exchange that happens may well be, at the very least, open to ethical question.

How exactly one defines what is an adequate level of sovereignty is, of course, rather hard to establish. Sovereignty is a relative, rather than an absolute, concept. However, some of the ways in which adequacy can be established for each factor in the CST are presented in Table 8.3, along with a summary of the main elements of the CST.

Ultimately, as with many business ethics tools, the CST cannot really be expected to tell us exactly where consumers have been treated unethically. However, it does provide us with a relatively simple and practical framework with which to identify possible ethics violations, and even to suggest potential areas for remediation. This is particularly important from the corporate

Table 8.3 Consumer sovereignty test

	Dimension	Definition	Sample criteria for establishing adequacy
	Consumer capability	Freedom from limitations in rational decision-making	Vulnerability factors, e.g. age, education, health
Consumer Sovereignty Test	**Information**	Availability and quality of relevant data	Quantity, comparability, and complexity of information; degree of bias or deception
	Choice	Opportunity for switching	Number of competitors and level of competition; switching costs

Source: Derived from Smith (1995)

citizenship perspective. If, as we have argued, corporations, just as much as governments and other social actors, have come to be responsible for protecting consumers' rights, then they need clear ways of assessing ethical situations. Nonetheless, as Smith (1995) suggests, the application of the CST by managers not only requires some kind of moral impulse or conscience on their part, but also leaves consumers relying on the marketer's paternalism for their protection.

ETHICAL CONSUMPTION

While forms of ethical consumption of one sort or another have been around for centuries, the phenomenon has risen to considerable prominence since the early 1990s. Today, ethical consumption covers a range of different activities, including boycotting certain companies in response to a poor social, ethical, or environmental record, buying non-animal-tested products, avoiding products made by sweatshop or child labour, choosing Fair Trade or organic products, as well as reusing or recycling products, etc. It is difficult to sum up the full range of activities that could potentially be included under the umbrella of ethical consumption, but at its core is the desire to make certain consumption choices due to personal moral beliefs and values. This motivation may be born out of individualized interest, e.g. a religious sense of morality, or patriotism, or more macro concerns, e.g. a care for society and/or the environment (Peattie 2012).

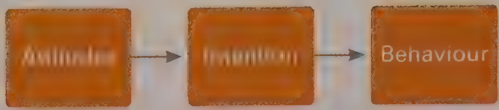
Ethical consumption The conscious and deliberate choice to base consumption choices on personal moral beliefs and values.

What makes a consumption decision driven by moral beliefs different from one that is not is open to debate, but arguably one of the key characteristics here is that the decision is about considering others—i.e. ethical consumption is about decisions beyond self-interest. Here we are concerned with how consumers' personal moral beliefs and values refer to the specific actions of businesses, such as a decision to deliberately boycott luxury brand Burberry over its use of fur, or a decision to deliberately seek out detergents low in bleach because of environmental considerations.

There is much evidence to suggest that many consumers do indeed include ethical considerations in their evaluations of businesses and the products they sell. For example, one UK survey suggested that spending on ethical goods and services grew by 3% in 2017 to a market value of £81.3 billion, with a quarter of UK consumers stating they had bought products in the last year specifically because of their ethical reputation.[12] This growth has been buoyed by factors including an increase in vegetarianism, a rise in bicycle sales given increasing consumer interest in healthy lifestyles, and green energy becoming more affordable. Similar findings have appeared across much of the rest of the world and imply that ethical consumerism can no longer be dismissed as a niche activity.

While encouraging, it is important to bear in mind that few consumers have been found to be completely consistent in their selection of ethical features over the alternatives (Auger, Devinney, and Louviere 2006). Indeed, despite having ethical intentions, ethically minded consumers do not always purchase ethical products (De Pelsmacker, Driesen, and Rayp 2005). One explanation for this might be that traditional understanding of ethical consumption has been born out of cognitive decision models, or theories of 'planned behaviour' (Ajzen 1985), which see ethical decision-making as part of a rational thought process. Yet, consumers do not always think rationally; think about the last time you popped out to buy a bottle of milk and came out of the store with

Figure 8.5 Theory of planned behaviour



Source: Adapted from Ajzen (1985)

a full bag of goods you chose on impulse! Such models, as captured in **Figure 8.5**, thus overestimate the extent to which ethical consumer attitudes, and related social factors, actually shape purchase behaviour.

Cognitive models such as Ajzen's (1985) may be useful in simplifying the decision-making process, yet the linear pathway to purchase that they convey is often somewhat idealistic. For instance, according to this model, you might read stories in the press about the increased prominence of plastics in the sea and the detrimental impact this has on ocean ecosystems. You may decide that, as a result of this, you will no longer buy groceries that use excessive plastic packaging, and this encourages you to buy fresh fruit and vegetables from your local farmers market, where you can bring your own reusable bags. However, intentions are not always static. Perhaps you may decide that you no longer want to pay extra for these ethical extras, or that you no longer desire them, or that you prefer the choice at an alternative retailer that does use plastic packaging. You may even engage in unconscious guilt-reducing tactics to alleviate your conscience, drawing on excuses such as 'it's not my fault I buy plastic packaged fruits, companies should make it easier for us to buy plastic-free' (Chatzidakis 2015). The actual behaviour you then demonstrate deviates considerably from your initial attitudes and (planned) behaviours.

To some extent we can explain the reasons as to why consumers' talk does not always match their walk, through an understanding of the attitude, or intention-behaviour, gap (Auger and Devinney 2007; Carrigan and Attalla 2001). The **attitude-behaviour gap** is characterized by a disconnect between what ethical issues consumers *say* that they are concerned about and their *actual* purchase decisions. As Carrington, Neville, and Whitwell (2010) have argued, this occurs for a variety of reasons, including: intention cannot be seen as a suitable proxy for ethical behaviour; a broad range of external physical and social environmental features shape consumption activities (e.g. price, convenience); and in research contexts, respondents tend to provide socially desirable answers that do not necessarily closely match their purchasing behaviour (Auger and Devinney 2007).

Attitude-behaviour gap A disconnect between ethical consumer attitudes and purchase behaviour.

As a result of the limitations of the rational, cognitive models of consumer behaviour, more recent research into ethical consumption has sought to elaborate on the role of consumer agency in actively shaping markets. While, to some, the onus should be placed on businesses to *edit* their product offerings to provide more ethical options for consumers to choose from ('choice-editing'), it is important to bear in mind that consumers can actively *influence* businesses to be more ethical through their consumption activities ('choice-influencing'). The practical steps that businesses are taking to encourage ethical consumption through choice-editing are explained in more detail below when we discuss sustainable consumption. For now, let's consider the key ways in which consumers try to shape market activity.

Choice-influencing strategies consider how consumers might prompt businesses to address ethics more enthusiastically, either through marketing specifically ethical products, or through developing a more ethical approach to business in general (Crane 2001). Here we can draw connection to the concept of consumer sovereignty as, in this context, consumers act as a social control on business (Smith 2014). Consumers effectively use their purchases as 'votes' to support or criticize certain business practices rather than using the ballot box to vote for political solutions through government and regulation. This form of action is effective because, if consumers demand improved business ethics through the market, then business might be expected to listen and respond. Dickinson and Carsky (2005: 36) refer to this as *consumer citizenship*. Consider how, today, a whole host of digital tools make business practices more transparent and consumers savvier as to how to make ethically informed and political decisions. For instance, the 'Social Impact App' uses the current location of a consumer to provide a customized list of the closest Fairtrade coffee shops, B Corps, and other sustainable consumption outlets, allowing consumers to tailor their consumption choices based on their values and interests.

In many Western democracies, such 'political' forms of consumerism have become one of the most widespread forms of political participation, second only to voting (Copeland 2014). That is, consumer activism appears to be on the increase while apathy towards conventional politics has taken hold in many European countries, the US, and elsewhere, particularly among young people. As Noreena Hertz (2001a: 190) contends: 'Instead of showing up at the voting booth to register their demands and wants, people are turning to corporations. The most effective way to be political today is not to cast your vote at the ballot box but to do so at the supermarket or at a shareholder's meeting. Why? Because corporations respond.'

Consider the issue of depleting fish stocks, a topical issue brought to life in a visually compelling way in **Ethics on Screen 8**. We typically think that such resource conservation issues are a matter for governments to resolve through national and international fisheries agreements, etc. However, with the increasing advent of certified sustainable fish in the marketplace, consumers can now encourage and reward firms for tackling the problem, rather than by making a political choice at the ballot box. In Hertz's words, such issues have undergone a 'silent takeover' by corporations, with consumers using the lever of the all-important corporate reputation to effect social change. These developments take ethical consumption away from merely being a way for consumers to assuage their consciences, towards active participation in making social and political choices.

Consumer 'votes' in the guise of consumption decisions can be used to remove patronage and punish unethical organizations ('boycotting') as well as to boost patronage and reward ethical organizations ('buycotting'). This is a theme we discuss in Chapter 10. From a consumer perspective, boycotts might be motivated by a range of factors including a desire to make a difference, an interest in self-enhancement, or belief that their actions really can make a difference (Klein, Smith, and John 2004). Yet, the effectiveness of traditional boycott activity is still open for debate. Recent UK research has found that 82% of consumers favour supporting companies that 'do the right thing', over punishing those that do not, perhaps suggesting that 'buycotting' behaviours may increase in the years to come.

While the evidence suggests that consumers can be a positive force for change in the context of ethical consumption, it is also important that we critically reflect on some of the themes we have highlighted in this chapter. If purchases are 'votes', then the rich get far more voting power than the poor. The market is hardly democratic in the same way that elections are. Additionally, however socially responsible businesses may be, the motives of corporations will always

ETHICS ON SCREEN 8 *Blue*

Blue The Film/ Northern Pictures

***Blue** is a documentary rushing to the defence of our oceans before it is too late.*

Leigh Paatsch, *News Corp Australia Network*

When it comes to saving the ocean, do you think one person can make a difference? According to 83-year-old underwater diver and shark expert, Valerie Taylor, yes, they can . . .

Valerie is just one of the ocean enthusiasts profiled in the award-winning Australian 'eco-motivational' documentary, *Blue*, which launched in 2017 to challenge the rampant industrialization of the sea. Through captivating underwater footage, scientific evidence, and personal anecdotes, this is a tale of man-made devastation in our oceans told through the eyes of those who hold the marine kingdom dear.

Did you know that half of all marine life has been lost in the last 40 years? Or that by 2050, it is estimated that there will be more plastic in the sea than fish? *Blue* brings these worrying statistics to life through provocative, haunting visuals that portray unbelievable natural beauty alongside crushing ocean conflict. We are, for instance, presented with footage of helpless sea lions caught in fishing nets, the demise of the Great Barrier Reef—one of the seven wonders of the natural world—and ecological human crimes in the form of oil and gas exploration. As one reporter from the *Sydney Morning Herald* comments, 'It's heart-breaking, ugly, chilling—and once you've seen it, impossible to un-know.'

The perils facing the marine world are unfortunately often out of sight and out of mind. Yet, *Blue* gives a voice to the ocean. This voice is urgent, optimistic, and beautifully crafted around a number of core narratives. We hear from the likes of marine and pro-shark activist Madison Stewart on how commercial fishing and shark finning on the Great Barrier Reef are significantly impacting shark populations. Turning to life above land, conservationist Tim Silverwood runs not-for-profit Take 3 for the Sea, which encourages us to pick up at least three pieces of marine litter whenever we visit the beach. Alongside sea bird specialist Dr Jennifer Lavers, he shows how our fatal addiction to plastics is having a major impact on marine life and threatening many habitats. For instance, on one island in Australia, plastic fills the stomachs of 90% of sea birds. Throughout the film, these narratives and associated imagery coalesce around one core message: we are at a critical tipping point in ocean conservation and we need to act now.

So how can we make a difference? Far from just raising public awareness of the shocking human impact on oceans, *Blue* urges immediate behaviour change. It encourages us all to think before we buy. Industrial-scale fishing, habitat destruction, species loss, and pollution will only be overcome through challenging our convenience lifestyles and encouraging sustainable consumption habits. An active campaign to create more 'Ocean Guardians' supports the film under the premise that 'our ocean has been the guardian of life on earth. Now it is our turn to be guardians for the ocean.' Individuals are encouraged to be more mindful at the point of purchase by not buying unsustainable fish (or any at all), to refuse plastic bags, to lobby shops to reduce plastic packaging, and to carry reusable cups. These are simple actions, but ones we, as consumers, can engage in if we care enough.

Blue certainly casts a lasting image and it is an image that we all need to see before it is too late. It is high time for corporations, governments, and we as citizens to consider our impact on the oceans and the legacy we want to leave for generations to come. What will you do today to save the ocean? Watching this film is a good start.

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http://www.documentaryaustralia.com.au/films/2902/blue.

Visit the online resources for web links to useful sources of information related to this film.

be primarily financial rather than moral. So, to some extent, attention to social concerns will always be driven by market appeal, whether firms operate in an *ethical niche* (offering specialist ethical products to a committed minority) or adopt a *mainstream* orientation to the ethical market, where they seek to integrate ethical considerations into conventional product offerings for broader market segments (Crane 2013a). Minority interests or unattractive causes are likely to be ignored or pushed aside when there is not sufficient market demand. Finally, the notion of ethical consumption itself has been the subject of critique. As Carrington, Zwick, and Neville (2016: 23) argue, 'consumers' everyday ethical consumption practices ensure capitalism's survival rather than digging its grave.'

In sum, for all its benefits, then, ethical consumption is never going to be an adequate replacement for political action—even if political action appears to be falling out of favour as ethical consumption becomes more mainstream. It does, however, show us that consumers are now important actors in the regulation and shaping of business ethics—and that, whether we like it or not, corporations are increasingly becoming a preferred channel through which moral choices can be expressed. And if the value of ethical consumption is subject to challenge, the question of sustainability contests the whole practice of consumption itself.

SUSTAINABLE CONSUMPTION

Not only are levels of consumption ever-increasing, but we increasingly define ourselves by what and how we consume. We use consumption as a site for social, cultural, and, as we saw above, political activity. Consumption is ultimately the reason why anything gets produced. Without a doubt, the massive growth in consumption in the latter part of the 20th century and the beginning of the 21st century has placed enormous strains on the natural environment. After all, the consumer society is built on two very problematic assumptions: that consumption can continue to increase because there are no finite resource limits, and that the by-products and wastes created by consumption can be disposed of indefinitely. A stream of research under the banner of 'macromarketing' has sought to remedy some of these issues—and in doing so, to challenge the negative perceptions of marketing—by recognizing the broader social and environmental consequences of marketing and consumption practices (Shapiro 2006). In short, a single-minded or 'myopic' focus on the consumer as the primary business stakeholder—to the detriment of all other stakeholders—is the philosophy that has driven the consumer society. Marketers must transition to a longer-term vision for the profession, argue macromarketers; a future that blends the commercial and social/environmental needs of a larger range of stakeholders, such as employees, local communities, and supply chain partners (Smith, Drumwright, and Gentile 2010).

It is not unreasonable to suggest that high (and ever increasing) levels of consumption pose enormous barriers to the development of sustainable business (Kilbourne et al. 1997; Schaefer and Crane 2005). Nor that consumers can be held responsible for much of the social and environmental degradation that their spiralling demands for products and services inevitably seem to bring (Heiskanen and Pantzar 1997). This is a particularly startling reality when we consider the rising consumption power of consumers at the bottom of the economic pyramid. The UN expects the world's resource consumption to double by 2050—this is a highly unsustainable scenario unless humanity is to find a way to 'decouple' economic growth and resource consumption (UNEP 2017). Buoyed by the UN Sustainable Development Goals (SDGs) introduced in Chapter 1, sustainable consumption is one important approach to contribute to this goal.

WHAT IS SUSTAINABLE CONSUMPTION?

While current levels of consumption may indeed be unsustainable, the question of how to move towards a more sustainable form of consumption is a vexed one, but also a vital one. However, what would constitute a sustainable level of consumption? One reasonable definition that is used by the European Environment Agency and a number of other organizations comes from the 1994 Oslo Symposium, which states that **sustainable consumption** is 'the use of goods and services that respond to basic needs and bring a better quality of life, while minimizing the use of natural resources, toxic materials, and emissions of waste and pollutants over the life-cycle, so as not to jeopardize the needs of future generations'. As this shows, sustainable consumption is not just about the point of consumption but also about a product's impact across its entire life cycle from extraction to disposal.

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Sustainable consumption Consumer behaviour that enhances quality of life and minimizes or eliminates social and environmental harms throughout a product's life cycle.

Although such definitions do not specify any given level of consumption to be sustainable, it would be a mistake to assume that people can, or will, readily give up current levels of consumption, given that it is widely regarded as an enjoyable, liberatory, and expressive activity in modern society (Borgmann 2000). Indeed, even more ethical or 'alternative' forms of consumption are suggested to provide pleasure for consumers; riding a bike to work is not only sustainable, but also infinitely more enjoyable in feeling the sun on your face, breathing in the fresh air, and providing a sense of freedom away from the morning rat race (Soper 2016). However, the whole notion of ensuring that the satisfaction of needs does not compromise the satisfaction of future generations' needs is extremely problematic if the 'needs' satisfied by contemporary consumption are those of sustaining our self-image, identity, and even our social relationships, culture, and enjoyment (Schaefer and Crane 2005).

To move towards sustainability, Buchholz (1998) suggests that we need a new environmental ethic that provides moral limits to consumption. Of course, reducing consumption is problematic, both politically and practically, for it also has serious implications for employment, income, investment, and other aspects crucial to economic well-being and growth. The culture of consumption is deeply embedded in the dominant organizing framework of modern societies—a framework which is beneficial to, and sustained by, powerful social, economic, and political actors (Kilbourne et al. 1997; Schaefer and Crane 2005). However, as we said in Chapter 7, by redirecting growth towards more socially beneficial ends—such as environmental products, green jobs, clean technologies, etc.—growth *could* still occur. This idea of the need to decouple the economic consumption that fuels growth from the material resource consumption that negatively impacts the environment has indeed been a position commonly taken by governments and corporations, despite limited evidence to date of its feasibility (Jackson 2014).

Ultimately then, the real challenge of sustainable consumption is to introduce alternative meanings of growth into society, so that we can learn to cultivate deeper, non-material sources of fulfilment. You do not need us to tell you that this is an immense challenge in the consumer culture of the 21st century. Such changes in values can only ever happen gradually. In terms of real actions to promote more sustainable consumption on a day-to-day level, we need to look at the more practical solutions that are emerging from businesses, government, and consumers.

THINK THEORY

Think about the challenge of sustainable consumption from a consequentialist point of view. This is the main approach to justifying increased consumption, but can it also provide the basis for moving towards a more sustainable level of consumption?

Visit the online resources for a suggested response.

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STEPS TOWARDS SUSTAINABLE CONSUMPTION

On a practical level, there is much that business, government, and consumers *can* do to seek more sustainable modes of consumption. While progress towards more sustainable consumption has been slow, there are signs of change emerging, primarily in the areas of producing environmentally responsible products, product recapture, service replacements for products, product sharing, and reducing demand.

Producing environmentally responsible products

Perhaps the most obvious way for firms to respond to the challenge of sustainable consumption is to develop and market products that impact less harmfully on the environment. This has been an area of activity for some 30 years or so, and has led to the development of a vast array of products, including recycled and unbleached paper, 'green' detergents, low-energy light bulbs, non-toxic toys, and energy-efficient appliances. Even the car market has begun to see genuine innovations towards more environmentally responsible products. Toyota started this trend in the late 1990s with its Prius, which boasts a hybrid petrol and electric motor. As a result, it has low emissions, high fuel efficiency, and is about 90% recyclable—making it one of Japan's most popular cars and one of Toyota's top-selling lines. More recently, electric cars have grown in popularity. In the first quarter of 2018 alone, nearly half the vehicles registered in Norway were electric and strong growth rates for electric vehicles have also been reported in the UK (11% year-on-year increase) and China (154% year-on-year increase).[11] Emerging economies, such as China and also India, are representing exciting growth areas as companies are seeking to be global leaders in electric vehicles by leapfrogging existing petrol-based technologies.

Developing new products is a key element of any movement towards sustainable consumption, but consumers also have to want to use them. Green product development should therefore be seen within a broader context of *sustainable marketing*, whereby firms develop and promote sustainable solutions for consumers. In 2009 this was described as a new 'paradigm' for marketing, in that it blends a focus on commercial transactions—as per traditional marketing—with the building of more meaningful interactions with consumers in the context of eco and ethical marketing (Belz and Peattie 2009). Sustainable marketing can also be adopted in more service-based industries such as tourism, as we see in our interview with the Director of Operations at a luxury eco-hotel chain in **Practitioner Spotlight 8**.

PRACTITIONER SPOTLIGHT 8 Delivering a sustainable guest experience

Consumers are demanding more from their travels. Alongside fulfilling experiences, they increasingly wish to have a positive impact on the local environments they visit. Yet, how do you deliver a luxury yet sustainable travel offering? We asked **Heath Dhana, Director of Operations at Elewana Collection,** to share with us his views on sustainable tourism.

Please can you tell us a little about your role?
The Elewana Collection has a range of lodges, camps, and boutique hotels across Kenya, Tanzania, and Zanzibar and currently serves around 70,000 guests each year. As Director of Operations, I am responsible for delivering the guest experience in all Elewana sites and I am on call 24/7. Working in hospitality you seldom have two days the same and you quickly have to learn a vast array of skills across all areas of the business. Operations is actually at the coalface as I interact with guests directly, and so good communication really is key to my role. We design our experience around a 'triple 8' principle. We take a 24-hour day and break it into thirds. This means that a guest typically spends eight hours of their time in a vehicle with a guide (whilst on safari), eight hours in public areas having a meal or drink, and eight hours in our rooms sleeping. The biggest influence on the guest is the guide so we spend a considerable amount of time and investment in developing our guides to be responsive to guests' needs.

To what extent do you see consumers taking an interest in the impact of their tourist activity? Consumers are changing and they want more out of a holiday than eating, drinking, and seeing animals. They now seek cultural experiences—cultural interactions—and their decisions are influenced by eco-ratings. Many of our properties have been gold rated by Ecotourism Kenya. This is a ranking that requires that 60% of our staff come from the local community. Our leading eco-camps have also received an international Sustainable Tourism Eco-certification Programme (STEP) accreditation with Sustainable Travel International, accredited by the Global Sustainable Tourism Council (GSTC). We also work in communities and have developed the 'Land and Life Foundation' where our guests are invited to support education and work in partnership with the local community.

It is really important that we manage consumer expectations. Our CEO has very high expectations for guest delivery and so ratings on TripAdvisor and guest comment cards provide key forms of measurement. We operate at a high price point and for some consumers this means air conditioning, a hairdryer in the room, and tea and coffee facilities. Some consumers don't realize that we are an eco-company that is running on solar power for the most part and that we cannot provide some of the usual luxuries associated with 5-star accommodation.

What has been your career path to date? I completed a trainee management programme in Zimbabwe and then went on to work in a variety of hospitality roles in locations such as London, Victoria Falls, and Botswana, and now East Africa. Elewana is very different today from the company I joined in 2013. We have always done great work in the communities but didn't appreciate the value of it. We did things because it was the right thing to do. In December 2014 we made an important acquisition—Cheli and Peacock—a company that was very community oriented and very green. Our business on the other hand was strong in systems, procedures, and monitoring. My job in the early years was learning from both sides. Now we have a huge focus on efficient service delivery, as well as promoting conservation and working to avoid human–animal conflict. For instance, we used to use plastic bottles for water. Now we give our guests stainless steel bottles that they can refill at their leisure. It might not be the sexiest thing to have big water dispending units in the camps, but we explain why we do this and it's very well received.

What are the key sustainability challenges facing East Africa? Last year we had one of the biggest droughts in Kenya. Droughts put huge pressure on local tribes and food stocks for their livestock. Many of the tribesmen up North are pastoralists and own big numbers of livestock but no land to feed them on other than public land. On the other hand, there are many private conservancies with large tracts of land dedicated to conservation. So, in a drought year the pressure reaches fever pitch and these very conservancies are targeted as they have all the grass the tribesmen need.

If you could change one big world issue what would it be? There is so much wealth and yet so much poverty. Being an African I realize that Africa is so far behind the rest of the world. There is more than enough to go around and if we did things more responsibly and held each other accountable, we might achieve more.

SOURCES

http://elewanacollection.com.

https://www.ecotourismkenya.org.

https://sustainabletravel.org.

https://www.gstcouncil.org/en.

https://landandlife.foundation.

Visit the online resources for more Practitioner Spotlight interviews.

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One key element of sustainable marketing has been the development of *eco-labels* that communicate to consumers a product's environmental features. Eco-labels are important because, as we saw above, consumer sovereignty demands that consumers have appropriate information with which to make informed choices between competing offerings. However, on-pack sustainability claims often fail to provide meaningful guidance on how to choose between alternatives and at worst, confuse consumers. Recent research has suggested that consumers might meet as many as 455 eco-labels across 25 industry categories when doing their shopping.[14] Eco-labels, therefore, need to act as a trusted guarantee that a product genuinely delivers the environmental benefits that it claims. Effective and successful eco-labels tend to be operated or verified by independent third parties (rather than simply being a company's self-declared stamp of greenness); they should be easy to recognize and understand, comparable, and focused on criteria that matter to consumers.

Contrary to reports that suggest consumers do not want more information at the point of purchase, recent research has also suggested that consumers prefer detailed labels about eco-claims rather than simple icons that suggest eco-friendly qualities (Atkinson and Rosenthal 2014). And this does not just end with mainstream consumer goods including tea, sugar, and chocolate. Even luxury brands such as Tiffany are communicating their approaches to sourcing ethically sourced gold more readily to avoid some of the stark social and environmental impacts of mining practices (Bloomfield 2017).

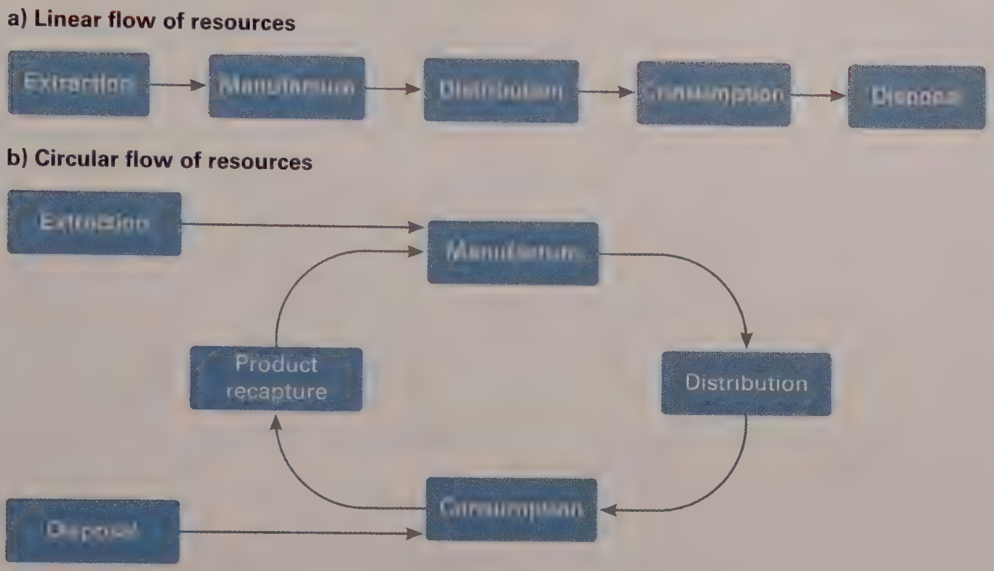
More broadly, progress towards sustainability will also require a willingness to change markets as well as changing products (Peattie and Crane 2005). Hence, rather than just considering the introduction of new products and labels, attention is beginning to focus more on *product service systems*, i.e. constellations of products, services, supporting networks, and infrastructure that provide benefits to consumers in ways that impact less on the environment (Mont 2004). These include product-recapture systems, service replacements for products, product sharing, and other innovative ways of re-engineering markets.

Product recapture

Current business systems of production tend to operate on a linear model where materials are used to make products, which are then consumed and disposed of (see **Figure 8.6**); and that is the last that we see of them. However, moving towards a circular use of resources—ensuring that so-called 'waste' is recaptured and brought back into productive use—not only minimizes waste, but means that less 'virgin' material is needed at source (Fuller 1999). Reconstructing products in this way (by recycling, refurbishing, re-manufacturing, or 'upcycling') can also help to bring prices down, because the cost of material inputs is often lower (Pearce 2009). As we shall see in Chapter 9, this often relies on close collaboration between businesses to be truly effective, but product recapture can also be introduced within a single company. The challenge for companies is to design for recycling, reuse, and repair, and to establish channels that facilitate the flow of product recapture.

Such considerations have been brought into sharp focus by extended producer responsibility legislation that has been introduced in various countries. Probably the best known is the EC Directive on Waste Electrical and Electronic Equipment, which came into force in 2004 and was revised in 2018. This aims to minimize the impacts of electrical and electronic equipment on the environment by making producers directly responsible for financing most of the activities involved in taking back and recycling electrical and electronic equipment, at no cost

Figure 8.6 From a linear to a circular flow of resources



to the consumer. At least 25 US states have also introduced electronics take-back legislation to tackle the growing problem of e-waste.

Service replacements for products

If this thinking is taken a little further, there is no reason for the consumer to own the product in the first place. After all, what we are often seeking when we buy products is their performance—the ability to wash clothes, for example—not necessarily the ownership of the physical product itself—a washing machine. By replacing the sale of the product with an agreement to provide an ongoing service, firms can substantially reduce the amount of material goods being produced, as well as managing emissions and energy inputs more efficiently (Rothenberg 2007). What we have seen in recent years, then, are companies experimenting with forms of product leasing, where the company maintains ownership, but conducts servicing, replacement of worn parts, upgrading of obsolete elements, and ultimately replacement and/or redistribution.

The 'servicizing' approach has been most common in industrial contexts—for example, Xerox typically rents and leases most of its commercial photocopiers—mainly because customers are larger and easier to service (Rothenberg 2007). During the 2010s, Philips experimented with servicizing in its commercial lighting business—that is, the company began selling lighting as a service where customers only paid for the light, and the company took care of the technology risk and the investment by taking the equipment back when it was time to recycle or upgrade the materials for reuse.[15] However, such changes can also be challenging. One servicing pioneer, the carpet manufacturer Interface, ran into problems when it discovered that tax and accounting rules favoured sales over leasing, and that most of its customers operated very different budgets for purchasing and leasing—meaning that it had to deal with different people from those it was used to dealing with (Esty and Winston 2009).

These developments can also be considered within the broader focus on the 'experience economy' in consumer markets (Pine and Gilmore 1999). To engage consumers, businesses need to actively *involve* them in memorable and personalized experiences. Not only does this idea support the notion of wrapping service experiences around products to provide added value (e.g. think about the use of an aftersales service that provides support after you have purchased a laptop), but it also places more emphasis on services per se. Services are intangible (you cannot touch them), inseparable (the consumer is actively involved in constructing the experience—if you do not show up in class, you cannot benefit from the teaching service you receive at university), perishable (services cannot be stored), and heterogenous (given how involved you are with the service, no two service experiences are ever entirely identical). The shift from manufacturing towards a more service-based economy has been reflected in research that examines dematerialized and 'liquid' forms of consumption (Bardhi and Eckhardt 2017). Consider how the music industry has shifted from a focus on owning records or CDs, to making purchases through online stores such as iTunes, to streaming music through services such as Spotify. In this vein, consumption has become more flexible, adaptable, fluid, and arguably more sustainable through an increasing focus on servicizing.

Product sharing

Another similar way of reducing consumption is for products to be shared by groups of consumers, thereby getting more use out of the same resources. This way of increasing eco-efficiency has been fairly successful in certain parts of Europe, such as Germany and the Netherlands, with products such as cars, washing machines, and certain tools being found to be particularly suitable for sharing (Schrader 1999). Although inconvenience is a major disadvantage, studies suggest that consumers welcome the savings in storage space, money, and the hassle of repairs and maintenance—not to mention benefiting the environment—and even take active enjoyment from this form of consumption (Hamari, Sjoklint, and Ukkonen 2013).

One area where this idea has particularly caught on is in flat/house and room sharing. In the US alone, lodging sharing economy services have risen from 7 million users in 2014 to over 16 million in 2018.[16] Since many of these services are co-ordinated and managed on the internet we have seen the rise of what is often referred to as the '**sharing economy**'. Whether it is renting a spare bedroom on Airbnb, a spare driveway on JustPark, a prom dress from Rent The Runway, a neighbour's car through RelayRides, booking a taxi ride on Uber, or even just giving away unwanted stuff on Yerdle—around 57% of US consumers, 67% of Indian consumers, and 40% of German consumers engage in these services.[17] The upshot of this new sector is that it reduces the consumption of material goods since it enhances the utilization of existing products.

Sharing economy An economic system built around the sharing of human and physical resources through peer-to-peer networks.

On the other hand, such a peer-to-peer marketplace is also not unproblematic. First, in order to be comfortable sharing your car or your home with strangers there is a strong demand for trust and new forms of identity verification—with some rather problematic implications for data privacy. More critical from an ethical perspective, though, is the fact that the sharing economy provides people with jobs that are generally lower paid, and lack insurance and other social protections (Reich 2015). It is therefore very much an open question whether this new sector—as much as it contributes to economic and ecological sustainability—can over time develop into a market or workplace that is also sustainable from the social perspective. These are all themes that are explored in greater depth in Case 8, which explores the ups and downs of the sharing economy in the context of Airbnb.

Reducing demand

Ultimately, the challenge of sustainability can only really be met if society accepts that people simply have to buy less stuff and change their behaviours. It does not take much intelligence to work out that this idea tends not to be too popular with business—nor, for that matter, with customers or governments. However, there are some areas where deliberate reduction of demand has been actively encouraged, and legislated for. For example, in 2017 Kenya instituted one of the world's most drastic bans on plastic bags, threatening up to four years' imprisonment or fines of $40,000 for anyone producing, selling, or even just carrying a plastic bag. While a challenge for consumer convenience, a report coming a year into the ban found evidence of clear environmental and social impact; the food chain was less contaminated (local abattoirs used to report finding plastic in the guts of three out of every ten animals; this figure has now reduced to one), waterways were clearer, and there were fewer 'flying toilets' (the practice of defecating into a plastic bag, tying it up, and then throwing it on to tin roofs in the shanty towns).

Demand reduction can also come from consumers themselves. As a slightly different form of ethical consumption (as described earlier in the chapter), consumers choosing to go down the route of 'voluntary simplicity', or 'downshifting', go beyond registering approval or disapproval of certain companies or practices and see consumers actively attempt to consume less overall. Indeed, as Shaw and Newholm's (2001) study of voluntary simplifiers makes clear, some degree of reflection on restraint is almost inevitable once consumers begin to take ethical stances on consumption. Instead of buying a shirt guaranteed to be sweatshop free, why not do without completely? 'Buy nothing day', which is an international day of protest against consumerism, is held in November each year following Black Friday, to encourage people to 'shop less and live more'.[18] For many people, such campaigns may be a step too far. But if modern society is to tackle sustainability seriously, we may just find that reducing consumption is simply a bitter pill that has to be swallowed.

SUMMARY

In this chapter we have discussed the specific stake held by consumers and outlined some of the main rights of consumers, including rights to safe products, honest and truthful communications, fair prices, fair treatment, and privacy. That firms still sometimes fail to respect these rights suggests that the interests of producers and consumers are not always seen by firms to be as aligned as stakeholder theory might imply. These problems simply would not occur if firms really saw their own interests to be best served by looking after their consumers' interests. Of course, in many of the problems and examples we have traced in this chapter, there are quite complex ethical arguments at stake. And doing the right thing by customers and potential customers may not always seem particularly attractive when one thinks that they are, for most companies, the single source of revenue to keep the business going. Still, consumers appear to be demanding better treatment, and we suggested that tools such as the consumer sovereignty test might at least provide some guidance on what should constitute ethical practice.

What we have also shown in this chapter, though, is that as the expectations placed on business have grown, so too have the possibilities for consumers to assume certain responsibilities in the control of business. The rise of ethical consumption places consumers in the role of policing companies, and even exercising their political rights as citizens through corporations. Notwithstanding the problems and dangers of such a situation, the challenge of sustainability pushes this yet further. In the consumer society that we currently live in, it appears that consumers might be expected to shoulder increased responsibilities, as well as being afforded certain rights.

STUDY QUESTIONS

1. 'Of course, corporations should avoid treating their customers in an unethical manner. After all, in the long run, unethical behaviour towards customers only serves to harm firms' own interests.' Critically evaluate this statement with reference to examples from the following:
   (a) Mobile phone companies.
   (b) Tourism companies.
   (c) Chemical companies.

   How does your answer differ for each type of company? Explain your answer.
2. What is deception in marketing communications? Take a look at some of the advertisements that pop up online and in your social media feeds. Do you believe that any of these practices are deceptive?
3. Set out and explain the four main pricing practices where ethical problems are likely to arise.
4. Can consumption make you happy? Consider the pros and cons of marketing in driving consumerism.
5. What are the arguments for and against firms extending their marketing strategies to poor consumers in developing countries? Should firms have a responsibility to serve those at the bottom of the pyramid?
6. What is the difference between ethical and sustainable consumption? What does the future hold for the ethical/sustainable consumer?

RESEARCH EXERCISE

Food companies have often been accused of targeting children with adverts for unhealthy products such as fast food, confectionery, and snacks. Your task is to determine the extent of such targeting, and its appropriateness.

1. Review the websites of three major food companies serving these markets in your country (for example, one fast food, one confectionery, and one snacks), and collect examples of communications to customers.
2. Record three hours of TV programming on Saturday morning and note the details of all the adverts—the product, the advertiser, and the target.
3. Assess the extent of advertising of 'unhealthy food' to children based on this evidence—is it more or less than other products? Are children targeted more than adults?
4. Analyse the way that children are communicated to in these marketing communications. To what extent are advertisers taking advantage of the vulnerability of children?

KEY READINGS

1. Smith, N.C. 1995. Marketing strategies for the ethics era. *Sloan Management Review*, 36 (4): 85–97.

   This is an easy-to-read article that explores a number of interesting cases in order to take a close look at changes in expectations about marketing ethics. It then presents a powerful way of thinking about what should constitute an ethical exchange in today's marketplace.

2. Prahalad, C.K. and Hammond, A. 2002. Serving the world's poor, profitably. *Harvard Business Review*, 80 (9): 48–57.

   A ground-breaking article offering a new perspective on marketing to the world's poorest people. It does not really deal with all of the ethical issues involved, but it provides a great introduction to the debates about the role of corporations in poverty reduction and social inclusion.

Visit the online resources for further key reading suggestions.

CASE 8 Sharing is caring? Airbnb and the highs and lows of the sharing economy

Simon Oldham

This Case explores the moral issues arising from the 'sharing economy', focusing specifically on the emergence and growth of one of the world's leading peer-to-peer organizations: Airbnb. The Case discusses the benefits and issues that have occurred as a result of Airbnb's operating model and hones in on the firm's broader responsibilities to consumers and society at large. In particular, it focuses on the changing role, and accompanying responsibilities, of consumers within the sharing economy as they transition from demanding goods and services from businesses to supplying goods and services to other consumers.

The name 'Airbnb' may conjure images of relaxing weekend breaks, exotic adventures, or simply value for money accommodation. From a business perspective, it is also emblematic of a fundamental economic transition towards the 'sharing economy', characterized by peer-to-peer provision, or sharing of access to goods and services, facilitated by community-based online platforms. This economic evolution has touched almost every facet of consumers' lives, from the means by which they invest their money, to how they travel, and how they consume everyday goods. Given the substantial impact on consumption patterns, a number of questions have now been raised regarding the moral conduct of sharing economy businesses such as Airbnb, Uber, and eBay as they vie to become some of the world's most powerful brands. At the time of writing, Airbnb's value far surpassed $30 billion. The spotlight has also been placed on individuals themselves as they transition from consumers to providers of goods and services, as well as of the consumers who use such services. Here, we unpack Airbnb's core business model and its rise to fame, before exploring some of the key concerns that plague the company.

What is Airbnb?

In its simplest form, Airbnb is a platform which connects travellers, or 'guests', with individuals, known on the platform as 'hosts', who have properties or rooms in their house to rent. Prospective guests enter a location, the dates they wish to stay, and the number of guests and, using this information, the website then provides profiles of possible hosts with detailed information, prices, amenities, and reviews by prior guests.

This simple idea originated in San Francisco in 2007, when roommates Joe Gebbia and Brian Chesky, struggling to pay the rent, decided to rent out three airbeds on their living room floor during a busy period in the city's calendar. After this experimental success, the pair brought onboard Nathan Blecharczyk, and launched the website and business in 2008. The business snowballed, raising several rounds of investments, so much so that, by 2012, the company had reached 10 million bookings, employee numbers had reached 500, and it had opened offices across the world, reputedly earning the business a $1.3-billion-dollar valuation. Yet the success did not stop there. By 2018 the firm had 5 million lodging options in 81,000 cities across 191 countries, and over 150 million estimated annual bookings, generating over $2.5 billion in revenue.

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Given Airbnb's growth, it perhaps comes as little surprise that over the years it has courted–and continues to court— controversy. Discrimination by hosts on the grounds of race; sexual assaults; burglary and damage to hosts' homes; tax evasion by hosts; and claims that the company's operating model has displaced residents due to inflating rents and property prices are all accusations that have been levelled at the company. Nonetheless, there are those that argue that the benefits Airbnb brings largely outweigh these harms, and that Airbnb is merely a platform for connecting demand from travellers to a supply of properties. The moral responsibility, therefore, lies with hosts and guests and not the company. But with increasing complexity across the service delivery supply chain, where does the buck lie?

Airbnb: cruising along at a high altitude

As Airbnb grew in the early 2010s it seemed to be a 'win-win' scenario for everyone involved: consumers could get accommodation at the fraction of the price of a hotel stay, hosts could rent out a spare room or property for extra cash, and Airbnb sat in the middle, reaping commission on each stay. As the brand prospered, and more properties were added, cash-savvy consumers in particular appeared to love the brand, as well as the amenities that many Airbnb properties provide, such as kitchens, washing machines, and even, in some cases, swimming pools. Furthermore, the chance to meet locals, stay in their homes, and pick up tips appealed to travellers who were looking for an 'authentic' taste of a country and its culture. This is well evidenced by research that estimated that the presence of Airbnb over 12 months between 2014 and 2015 resulted in a direct loss to hotels in

New York City of $451 million dollars, with two-thirds of Airbnb guests claiming to have used Airbnb as a hotel substitute when surveyed. Meanwhile, for those guests looking for a unique holiday experience, Airbnb began hosting a wide array of luxury and eccentric properties: houseboats in Amsterdam, castles in Tuscany, igloos in Greenland, and treehouses in Germany.

At the same time, hosts were enjoying the benefits of renting out rooms and properties. In 2017, the typical Airbnb host in London made £3,500 per year, while in New York City, hosts made an average of $5,500, often a greater yield than that available on the long-term rentals market and up to three times more than the median long-term rent in some areas. Moreover, while many would presume that this extra income would flow only to affluent property owners, in fact, according to research by the firm, 52% of Airbnb hosts are on low to moderate income, with 53% of hosts saying that using Airbnb has helped them stay in their home. Airbnb even launched an initiative with a number of US mortgage lenders which allows hosts to use Airbnb income to help refinance their homes.

While both guests and hosts appeared satisfied, Airbnb too enjoyed substantial growth, a host of favourable publicity, and mounting commission. This allowed the business to expand its offering, and improve customer experience, through the acquisition of a number of other businesses, for instance a villa-rental company, 'Luxury Retreats International', social payment start-up 'Tilt', and travel accessibility start-up 'Accomable', as well as launching Airbnb Experiences, which offers tourism-related experiences such as walking tours, art classes, and restaurant reservations.

Airbnb encounters turbulence

Nevertheless, as Airbnb grew, so did complaints against the company, its hosts, and guests. Perhaps the most frequently levelled accusation against Airbnb is that the company pushes up rental and property prices in the cities in which it operates. A report on the effect of Airbnb on the New York property market suggests that between 7,000 and 13,500 units have been removed from the city's long-term rental market, driving a 1.4% median increase in long-term rental prices over three years, from 2014 to 2017. This is not an isolated incident, but a story familiar to many cities around the world including London, Berlin, Madrid, Tokyo, and San Francisco. Alongside increasing property prices, according to local residents in Amsterdam, the abundance of Airbnb lettings has led to 'over-tourism', precipitating a weakening of community ties, a supplanting of local shops by businesses aimed at Airbnb guests, and the catalysing of gentrification, causing the displacement of local residents. In Barcelona, a study of residents found evidence of tenant expulsions, harassment, and daily disruptions as a result of Airbnb's presence.

This perceived overabundance of Airbnb properties in some cities has led to increased regulation of short-term rental lettings, designed to dissuade landlords and property owners from converting long-term lets into short lets. For instance, in Paris, short-term rentals are limited to 120 days a year, while in New York City it is typically illegal for flats to be rented for 30 consecutive days or fewer, unless the host is present. Perhaps the most surprising result of this regulation is the instances of defiance emanating from hosts. In London, where short-term rentals for whole properties are now limited to 90 days a year, Airbnb has enforced these regulatory limits; yet, reports suggest the contrary, with hosts findings loopholes to circumvent such rules. For instance, evidence has been found of commercial landlords registering properties multiple times with the site, to make it look as though one property was in fact three or four. Furthermore, disregard for regulation by hosts does not appear to be unique to London, with widespread reports throughout Europe and the US of hosts ignoring local regulation regarding short-term rentals, as well as, in some cases, engaging in tax evasion and dismissing safety regulations. For example, in the UK in 2018 the All-Party Parliamentary Group on Tourism, Leisure, and the Hospitality Industry warned that many Airbnb lets may be unsafe as fire safety regulation checks by fire authorities, a requirement for hotels and traditional B&Bs, are frequently circumvented. Such regulatory non-compliance by the Airbnb community has led, in some

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circumstances, to penalties being imposed on the company, such as in 2016 when Airbnb was fined €600,000 by Barcelona city council for continuing to advertise unlicensed properties.

Back down to earth with a bump

This lack of concern for adhering to regulations and rules is often accompanied by a blatant disregard for moral responsibility, with both hosts and guests becoming involved in anti-social, antagonizing, dangerous, and illegal behaviour. Indeed, guests have reported every conceivable inconvenience and negative experience at the hands of hosts: cockroach, ant, and frog infestations; leaking walls and ceilings; unclean properties; properties bearing little resemblance to adverts; broken facilities; and last-minute cancellations. Equally, hosts have described incidents of guests breaking furniture, holding parties, disturbing neighbours, taking illegal substances, as well as of intimidation and personal threats. For instance, in one case, a host in Oakland, California, after renting his apartment on Airbnb, came home to find that the guests had battered holes in his doors and closet with an axe, stolen his computer and birth certificate, and left significant evidence of drug taking.

These problems have occurred despite the fact that both guests and hosts are able to leave ratings and feedback about one another following Airbnb rentals. Yet accusations of unsavoury behaviour by both guests and hosts do not end there. Research by Harvard University concluded that individuals with African-American-sounding names were being discriminated against by hosts, who often reject their bookings. Further accusations also emerged regarding discrimination on grounds of age, gender, and a number of other factors. In addition, both guests and hosts have disclosed incidents of becoming victims of burglary, violence, and assault as a result of letting or renting via Airbnb. Such are the volume of negative experiences of guests and hosts, a website devoted entirely to the topic has been spawned: http://www.airbnbhell.com.

Meanwhile, the company has not been idle in attempting to combat these problems. For example, Airbnb has taken steps to tighten restrictions to combat fake listings, improve transparency through asking guests and hosts to provide photos of themselves when registering, provide background checking of hosts and guests, and the provision of a secure payment platform. Although such initiatives have helped to alleviate some of the aforementioned issues, many of the problems still endure. Therefore, the question must be asked—could Airbnb be doing more to combat ethical issues in the sharing economy?

Given that property owners are finding a new role in the economy by supplying properties for short-term rentals, there are those that have argued that such a role comes with responsibilities akin to those of business—to be held accountable, to respect the law, and to adhere to moral responsibilities, for example in consideration of local communities. Likewise, some have argued that Airbnb guests perhaps need to face up to the changing role of being a consumer within the sharing economy. Renting through Airbnb cannot be conflated with renting a hotel room from a 'faceless' corporation—the properties are often people's homes that are being shared, and if too much abuse occurs then the sharing economy, which benefits many, may not ultimately be tenable.

Overall, with a target of 1 billion annual guests by 2028, Airbnb is a company that, like most of the sharing economy, is not just here to stay, but to grow. However, this growth will inevitably result in an accompanying expansion of influence and power for the constituent companies of the sharing economy, as well as in the empowerment of individuals producing goods and services. However, as this Case demonstrates, the delineation of moral responsibility between firms and individual producers on which their business model is predicated is currently not well defined. Consequently, the apportioning of moral responsibility is an issue that may need to be much better clarified to ensure the continuing success, not just of Airbnb, but of the whole sharing economy.

QUESTIONS

1. What are the future ethical opportunities and issues that Airbnb might face? Where do you think moral responsibility lies for the bad experiences of guests and hosts?
2. Take a look at some recent newspaper articles on Airbnb. Are these broadly in support of Airbnb or do they raise challenges? What do these reports tell us about how consumers are shaping this marketplace?
3. To what extent does Airbnb support sustainable consumption?
4. Consider the main forms of consumer deception that might arise from renting a room through Airbnb. How might these be alleviated?
5. What are the key ethical issues in the marketing of companies such as Airbnb? Consider the factors represented in Table 8.1 in your response to this question.

Visit the online resources for web links to useful sources of further information on this Case.

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9

Suppliers, Competitors, and Business Ethics

Having completed this chapter you should be able to:

- Explain the specific role of suppliers and competitors as stakeholders.
- Describe the ethical issues and problems that arise in an organization's dealings with its suppliers and competitors.
- Critically evaluate the ethical challenges of global business networks, including from the perspective of small firms.
- Explain the role of corporations in influencing the social and environmental choices of suppliers and competitors through their business relationships.
- Identify the implications for sustainability of relationships with suppliers and competitors.

Key concepts:

- Global production network
- Conflict of interest
- Ethical sourcing
- Fair trade
- Circular economy

INTRODUCTION

Up until this point we have mostly been considering the ethics relationships between businesses and other groups who aren't businesses themselves. In this chapter we focus on business-to-business ethics issues. This is not only of interest to the relevant businesses, but is also receiving increasing attention from consumers and the media, who are concerned about the quality of these interactions as well as those which affect them more directly. The highest-profile business-to-business relationships are those between suppliers and their business customers, due in part to revelations of poor social and environmental conditions in supplier factories, as well as recognition that ethical reputations depend as much on what happens in an organization's business partners as within the organization itself. However, there are other business partners that are similarly important to the ethical and economic prosperity of a business.

In this chapter we shall examine these inter-organizational relationships in the context of two types of businesses—suppliers and competitors. The issue of other businesses that are customers is something that we dealt with in Chapter 8. What, though, of an organization's behaviour or responsibilities towards those who supply it with the goods and services necessary to conduct its day-to-day operations? There are clearly many of these suppliers, whether they are providing raw materials for making products, stationery for the office, cleaning services for the plant, or consultancy services to help improve competitiveness—just to name a few examples. Contracts between businesses and their suppliers often involve substantial sums of money, which can even mean the difference between business survival and failure. Hence, there is always the possibility for relationships with suppliers to give rise to ethical problems, for instance when procurement staff are offered bribes or kickbacks to encourage them to select a particular supplier—or more mundanely, are focusing on cost reduction rather than working towards an ethical supply chain. Likewise, we have already seen that relationships between competitors in the same industry can lead to ethical problems if consumers get short-changed—for example, because of collusion over pricing. Such anticompetitive practices are only half the story, though. Some of the main ethical problems that arise in relationships with competitors are a result of seeking to dominate the market, up to and including arch-rivals employing 'dirty tricks' tactics in order to outdo one another. Based on the true story of entrepreneur Joy Mangano, the film *Joy* in **Ethics on Screen 9** illustrates the practical and ethical challenges that a start-up business has to deal with, in preventing its suppliers from stealing its design, and in breaking into an apparently saturated market with an innovative new product design.

What will soon become clear as we go through this chapter is that the relationships between businesses can raise ethical problems both by being too adversarial as well as by being too cosy. Ultimately, though, whatever the nature of a specific business-to-business relationship, our interests in business ethics among suppliers and competitors are best framed in a somewhat broader context that takes account of the network of relationships and interdependencies that constitute the business community. It is, after all, membership in this wider community that not only helps to give credence to a notion of the corporation as a citizen of some sort, but also serves as a launch pad to explore the possibilities of addressing sustainability through business-to-business relationships. It is also, as we shall now see, the basis for defining other businesses such as suppliers and competitors as organizational stakeholders.

SUPPLIERS AND COMPETITORS AS STAKEHOLDERS

Models of organizational stakeholders, from Freeman's (1984) original formulation onwards, have tended to vary somewhat in their definitions of what constitutes a stakeholder and which constituencies should be included or excluded. Many conceptualizations even discriminate between primary (mainly economic) stakeholders and secondary (non-economic) stakeholders (see Carroll and Buchholtz 2012: 67–9). All formulations, however, tend to include suppliers and most tend to exclude competitors (Spence et al. 2001). Although there are good reasons for this (Phillips 2003), in our view, such a distinction is not entirely useful or appropriate. Let us briefly look at some of the arguments.

SUPPLIERS AS STAKEHOLDERS

In Chapter 2 we used Evan and Freeman's (1993) definition as a way of clarifying what a stakeholder is. A stakeholder of a corporation is an individual or a group that either is *harmed by or benefits from the corporation* or whose *rights can be violated*, or *have to be respected*, by the corporation.

It is clear without much further argument that suppliers are stakeholders (Huq, Chowdhury, and Klassen 2016)–they can benefit from the success of the corporation by receiving orders for products and services and they can be harmed by losing orders. Similarly, we might easily suggest that suppliers have certain rights that might need to be respected by corporations, such as the right to a contract, to a fair deal, or to some level of fair treatment or loyalty. Indeed, organizations and their suppliers can be seen to be *mutually dependent* on each other for their own success, although the nature of their dependency is different: suppliers rely on their customers for the orders, which keep them in business; the purchasing firms rely on their suppliers to provide them with the products and services at the required quality they need to carry on their operations. As we saw with consumers in Chapter 8, saying that organizations and their suppliers are interdependent does not necessarily imply that their interests are always convergent. Except where the supplier is in the fortunate position of lacking (many) direct competitors for a desired product or service, the greater power, on the whole, lies with the purchasing firm (Spence and Bourlakis 2009). For example, while the buying company may wish to reduce costs by sourcing cheaper products (pushing prices down), the supplier will usually seek to obtain the best possible deal and maximize revenue (pushing prices up). The larger customer tends to have the stronger voice in these negotiations. We shall examine a number of such problems in the section on ethical issues and suppliers.

COMPETITORS AS STAKEHOLDERS

Competitors, on the other hand, are rarely referred to in any detail as stakeholders–certainly not in academic treatments of business ethics, nor, it would seem, in most business communications by corporations and their leaders. As Spence et al. (2001) suggest, competitors are very much the 'forgotten stakeholders'. Why? Well, competitors are, to begin with, typically seen as being in an ongoing, zero-sum battle with each other (i.e. a situation where whatever is gained by one side is lost by the other) for customers, resources, and other rewards. Why should organizations accord their competitors any specific ethical claim when these are the very businesses that they are vying with for such rewards? What rights could, say, Samsung possibly have in its competition for customers with Apple?

This is not actually as simple, or as redundant, a question as it might at first seem. Samsung certainly has a number of *legal rights* that are more or less protected by national and international trade agreements, which Apple must respect. These include the right to freely enter and leave the market, the right to set their own prices free from influence or coercion, and the right to inform potential customers about their products. For instance, it would be illegal for Samsung to try and influence the price that Apple sets for its tablets, smartphones, and smartwatches. Referring back to Freeman's original formulations of stakeholder theory, Robert Phillips (2003: 28) argues that if the theory is one of strategic management and ethics, then competitors *cannot* lie outside it. As we shall discuss further, for small and medium-sized enterprises, the stakeholder relationship between local competitors in particular can be collaborative and mutually supportive, quite in contrast to the prevailing expectations of competitor relationships as antagonistic (Spence et al. 2001).

ETHICS ON SCREEN 9 *Joy*

Fox 2000/Kobal/Shutterstock

A story about entrepreneurialism and the slings and arrows of commerce
Sam Delaney, *The Telegraph*

As the credits roll at the end of the film *Joy*, the song 'I feel free' by 1960s supergroup Cream plays out—it is well worth a listen as you read this section. By this conclusion to the film, the entrepreneurial business woman and lead character, Joy, has finally got to a position in life where she calls the shots, and this, by implication, brings her the freedom that was so absent in her earlier life. This film, directed by David O'Russell and starring Jennifer Lawrence, brings to life the nitty gritty of inventing and creating a new product, developing a prototype, finding a manufacturer to produce it at the right price point, differentiating the product from the competition, and finding a route to market. *Joy* is a dramatization of the true story of the highly successful inventor and American businesswoman Joy Mangano. Through the dawn of her business, Ingenious Designs Inc., we follow the journey of the Miracle Mop. Don't be fooled by the apparently mundane product which is the vehicle for this film. Within 10 years, $200 million worth of Miracle Mops had been sold, and the market reshaped. This product is lightweight and easy to use, has a convenient superabsorbent design and wringing mechanism, and a removable washable head; so, the price point is relatively high for a mop—it should be a once-in-a-lifetime purchase.

Joy is depicted, initially, as an overworked but resourceful woman whose intellect, creativity, and potential as a child have never had the opportunity to shine: her 'dreams are on hold right now'.

Instead she has taken on responsibility for four generations of family members and has a household full of dependants relying on her income and care. The family business is a garage—Rudy's Trucks, run by her father (Robert DeNiro) and sister—demonstrating nicely the entanglement of the personal and the professional in firms which are owned and run by family members. With the scene set, we witness Joy come to life as she hits upon her ingenious mop design, and commits wholeheartedly to bringing it to market, at any cost. She looks to the family business and her father's new girlfriend—a rich widow, played by Isabella Rossellini—to help fund the venture, as well as re-mortgaging her home. Joy's neck really is on the line. To develop the prototype and start production, she tangles with some unscrupulous manufacturers who she later discovers claim not to just be her supplier, but also to have the patent and to have created the Miracle Mop. The relationship with the dubious suppliers drifts on until Joy herself travels to their factory. Having learned of the fraud and embezzlement they are enacting to her cost, in a tense scene in which the possibility of a violent end hangs in the air, she threatens them, showing a steely backbone which becomes her trademark. As Russell says of his film: 'If you are going to live the journey of the fairy tale (of commercial and personal success), you've still got to live through the trolls and the giants and the beasts and the goblins'. There is a parallel story in the narrative of another entrepreneurial venture, which is also just starting out at the time, as a new sales and distribution mechanism for products, the shopping channel QVC. Joy herself ends up promoting the Miracle Mop, which is eventually spectacularly successful after a false start, in which we see QVC lead her in to committing to 50,000 units then effectively leaving her carrying the loss when they don't sell. It is a reminder that relationships throughout the supply chain from raw material to end consumer can be, and frequently are, fraught with ethical issues. The theme of the seriousness of business and money issues, not least when family and friendship is entangled, recurs throughout the film. The freedom that Joy eventually experiences as she makes her way to huge business success and ultimately a business empire means that she holds the power in her supply chain relationships, and rather than being on the receiving end of the unethical or sharp practices of others, *she* has the control and freedom to run her business, her way.

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http://joymangano.com.

Visit the online resources for web links to useful sources of information related to this film.

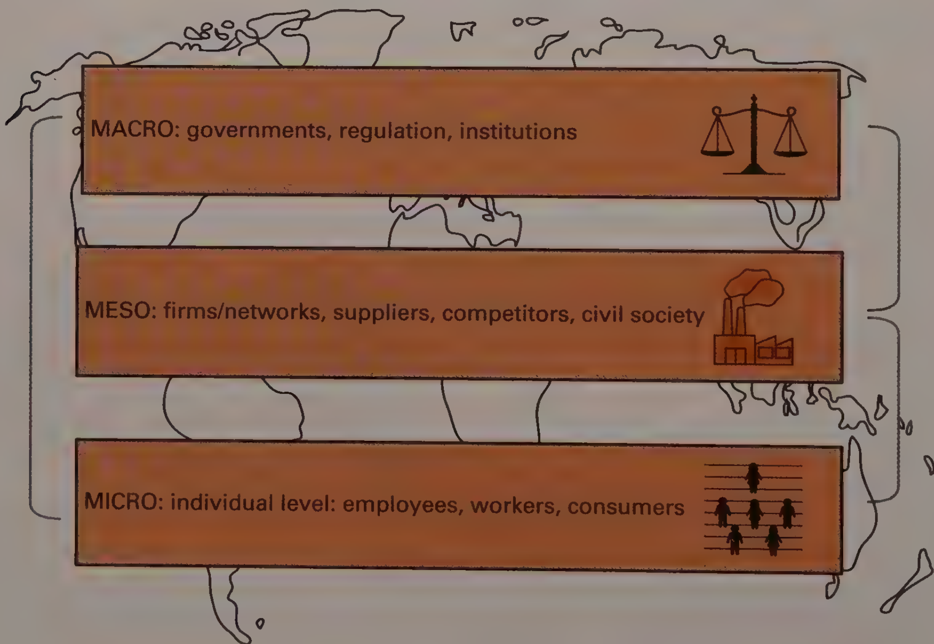
Hence, it is a relatively short step from legal rights among competitors to claim that a competitor also has some form of *moral claims* on an organization which go beyond those codified in law—for example, some form of right to privacy, or a right to 'fair play'. Certainly, few would contend that the mere fact of a competitive situation bestows upon an organization carte blanche to act in any way it chooses in order to beat its competitors, including lying, deception, poaching staff, and other such questionable practices that we shall examine as we proceed through the chapter—not to mention outright illegal activities such as theft and extortion.

In addition to these claims, if we look at the first condition of being a stakeholder given above, there is little doubt that competitors most certainly can be *harmed by* or *benefit from* the organization (Spence et al. 2001). Competitors can experience a loss or gain of market share as a result of the actions of their rivals, they can experience a change in trading conditions (for example, their suppliers might switch to a competitor offering higher prices), or they can face changes in the perception of their industry as a result of the behaviour of their competitors (Barnett and King 2008).

To sum up then, businesses should not be seen as isolated islands of economic activity, but as businesses operating within a web of other businesses, which are in turn connected to non-business actors and institutional systems and structures, bound by some mutual interests, and interlinked flows of resources and rewards. This suggests that firms are probably best understood as part of a global production network (GPN) (Coe, Dicken, and Hess 2008), rather than just as part of a simple exchange or linear chain between two parties (Håkansson and Snehota 2006).

According to the **global production network** model, which we illustrate in **Figure 9.1**, notable decisions about how the firm deals with any single other firm (such as one of its suppliers) can have a significant effect on numerous other members of the business network, including other suppliers, potential suppliers, and competitors, and are in turn affected by the institutional context and global distribution processes. These decisions are, in a global context, also affecting individual workers and consumers. We talk about these levels as macro, meso, and micro, as shown in **Figure 9.1**. While the ethical obligations that the firm has to these other network

Figure 9.1 The context of a global production network. Diagrams reproduced from the Creative Commons



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members might vary, this does not deny the fact that they all have some form of stake in the decisions made—and may act upon that stake in ways that are of consequence to the organization. Recent developments in understanding GPNs have emphasized the social embeddedness of the supply relationships. Juliane Reinecke and colleagues (2018) argue convincingly that such networks also connect people in unprecedented ways across culture, class, age, gender, race, ethnicity, citizenship, and religion and have created new, interrelated webs of social relationships.

Global production network is an essentially dynamic, relational framework which goes beyond linear functions, operations, and transactions to produce a certain commodity or product. Decision-making encompasses geographic, institutional, organizational, and individual configurations of all relevant relationships (e.g. at the level of civil society, labour, and consumption as well as interfirm relationships in the production chain).

These interrelationships give rise to a number of potential ethical problems. In the following two sections we will look at the specific issues that arise with respect to dealings with suppliers and competitors before moving on to examine the impact of globalization on the ethics of these business relationships.

ETHICAL ISSUES AND SUPPLIERS

On reading a typical contemporary text on supplier management, one might wonder how ethical problems could possibly arise in relationships with suppliers. Close relationships have been widely touted as an effective business strategy for improving performance and achieving win-win solutions for organizations and their suppliers (Cao and Zhang 2011). Thus, firms have continued to increasingly move away from traditional adversarial relationships with suppliers (based upon short-termist, transactional arrangements with large numbers of supply firms) towards more partnership-based approaches that emphasize long-term relationships with core supply firms, based upon mutual trust and collaboration (Daugherty 2011).

The attention afforded to partnership sourcing is significant for our understanding of business ethics because it very much reinforces the notion of suppliers as stakeholders in the firm. In fact, though, the partnership approach is certainly not representative of all, or probably even the majority, of business–supplier relationships, and it focuses only on the 'first-tier', or direct suppliers to the firm, not the more complex perspective of suppliers to the suppliers, or indeed the global production network. Evidence suggests that, while many progressive firms have indeed moved towards more collaborative approaches with their core suppliers, much so-called 'partnership' sourcing actually involves problematic power relations and troublesome intra-firm tensions (Hingley 2005). This 'dark side' of close relationships (Anderson and Jap 2005), as we shall see, can quite easily reveal a number of ethical issues.

It is also important to recognize that, regardless of the overall approach to firm–supplier relations that is adopted by an organization, the individuals who actually conduct these relationships—namely the procurement staff—are often confronted with a whole host of ethical dilemmas on a day-to-day level. We meet a specialist in this area in **Practitioner Spotlight 9**—Shaun McCarthy is a leading expert on sustainable supply chains, globally. Procurement professionals are primarily judged on the price and quality of the products and services they procure—rarely does an ethical or environmental issue feature in their performance appraisal, yet they are

ETHICAL DILEMMA 9 **A beautiful deal?**

You work as a procurement manager for a large European retailing company that is in the process of revamping its line of own-label cosmetics. This line is important to your business, and as your company has expanded, own-label cosmetics have gradually occupied an increasingly prominent role in the product mix in stores.

Your existing supplier of own-label products, Beauty To Go, has supplied your company for ten years and over two-thirds of its business is accounted for by your company's orders. You have a good relationship with the account manager who, like yourself, has been in her role for a number of years, and has become a good friend.

As you are considering how to proceed with the revamp, a competing supplier, Real Cosmetics, contacts you offering virtually identical products to Beauty To Go, with what appear to be equivalent supply arrangements, but at a slightly lower price per unit. Over a year this would work out to approximately €200,000 savings—not a huge sum for your company, but quite a substantial saving of about 2% on your costs. In addition, Real Cosmetics also highlights in its sales pitch that it goes well beyond the industry standard for non-animal testing of the products' ingredients—again, a significant improvement over what Beauty To Go has been offering you.

QUESTIONS

1. What are the ethical issues at stake in this situation?
2. Which ethical theories do you think might be of help in deciding an appropriate course of action?
3. What are the main considerations that these theories raise?
4. How would you proceed in this situation?

required to take responsibility for these aspects too. So they are balancing their own incentives with broader corporate and perhaps personal ethical frameworks to confront dilemmas on multiple levels. Procurement-related ethical dilemmas can include the giving and acceptance of gifts, bribes, hospitality, and other potential inducements, as well as the use of questionable tactics in business-to-business negotiations. We shall be examining these issues as we proceed through this section, but before we do, it might be helpful to work through **Ethical Dilemma 9**, which presents some typical ethical problems occurring in supplier relations.

9

MISUSE OF POWER

The issue of power in buyer–supplier relationships has received much attention over the years, not least because the relative power of the two parties can be extremely influential in determining industry profitability (Porter 2008). Clearly, though, imbalances in power can also lead to the emergence of ethical problems, particularly when any imbalance is misused to create unfair terms and conditions for one or the other party.

One useful way of looking at the relative power of buyers and sellers is using *resource dependence theory* (Pfeffer and Salancik 1978). According to this theory, power derives from the degree of dependence that each actor has on the other's resources. This dependence is a function of how scarce an organization's resources are—i.e. the level of *resource scarcity*—and how useful they are to the other party—i.e. the *resource utility* (Cox et al. 2000). Therefore, the buyer is likely to be able to wield considerable power over the supplier when:

- the supplier's resources are relatively plentiful and not highly important to the buyer; and/or
- the buyer's resources are relatively scarce and highly important to the supplier.

This situation has been a major feature of the relationship between leading European supermarkets and their suppliers. With a handful of very large supermarket chains dominating each national market—such as Rewe and Edeka (includes Plus, Netto, and Spar) in Germany, 'Systeme A' (Auchan and System U partnership), Carrefour, and Leclerc in France, and Tesco, Sainsbury's, Asda, and Morrison's in the UK—their resources, in terms of purchase potential and access to markets, have become relatively scarce but extremely important for food suppliers.[1] The rise of discount supermarkets such as Lidl and Aldi, who are piling on the competition and gaining market share more or less across the board, has only put more pressure on driving costs down and market share up among the mainstream supermarkets. At the same time, the suppliers' resources have become less scarce and important to the supermarkets, since they increasingly source on a global basis from a vast array of suppliers and manage to stock an impressive range of products which, except in a very few cases, would hardly suffer from the removal of one supplier's products. As trade barriers increase between the UK and the rest of Europe, competition is only likely to become fiercer and put greater pressure still on low price and quality supply.
It is perhaps not surprising, then, that Europe's supermarkets have often been criticized for abusing their power over suppliers. For instance, in 2014, the European Commission called for action to improve protection for small food producers against unfair trading practices from supermarkets, including the establishment of Europe-wide principles of good practice and minimum standards of enforcement. In the UK, Christine Tacon is the government-appointed Groceries Code Adjudicator who monitors and reports on supermarket–supplier relations, noting in the 2016–17 annual report, for example, that there continue to be instances of suppliers having to pay supermarkets, through direct as well as indirect routes, in order to have their products on supermarket shelves. This indicates the control that a powerful customer business can have over its suppliers, where we would normally expect payment to be one-way only from customer to supplier, rather than also involving payments in the opposite direction.[2]

Such practices can be criticized from a *deontological* perspective—in that all concerned have a duty to act with integrity whether they hold greater power or not. Equally interesting, however, is a *consequentialist* position: the problems caused by abuse of supply chain power are not just of consequence to the weaker partner. Using the historical example of the suppliers of UK clothing retailers, which we can anticipate still holds true, Jones and Pollitt (1998) show that an opportunistic abuse of power by retailers can lead to reductions in quality, lack of investment, lack of innovation, and even job losses and industry decline. In this case, the overexposure to risk may result in an underperformance of suppliers. Ultimately, continuous abuse of power may eventually even harm the powerful partner, particularly if their supplier relations become so dysfunctional that product quality and industry growth are jeopardized—thereby reducing long-term profitability. There is a balancing act to be played by powerful customers, such as supermarkets. There is a limit to how far they can (profitably) push their suppliers. It is an intriguing philosophical question, but of course the survival of supplier businesses and the livelihood of those who work there are ultimately at stake, with a lesser concern of the reduced choice for consumers also in the mix. For example, while acknowledging the claims made that profit can be extracted, researchers note that the 'dark side' of supplier power is moderated by the ethical climate of transactions, such that, for example, there is less exploitation where there is mutual dependency (Schleper, Blome, and Wuttke 2017).

Although market conditions can disadvantage suppliers, purchasing firms may choose to exploit their power differentials in some areas of business—for example, by forcing down prices—but offer support and investment in others—by contributing market knowledge, financial support, and other management resources. This more variegated picture may well offer a more realistic view of some industries (Bloom and Perry 2001), but it makes any conclusive ethical evaluation difficult. While individual actions may seem unethical, when put in the context of a longer-term interaction—and thinking in utilitarian terms of the greatest good for the greatest number—the action may be more acceptable.

It must also be acknowledged that the ends could conceivably justify the means. Large firms also (mis)use their power to pressurize their suppliers to act in a way that is more socially responsible or sustainable. Spence and Rinaldi (2014) studied a UK supermarket that sought to push more sustainable practices through its lamb supply chain by using the power we have outlined. The farmers and wholesalers in their supply chain had no real option but to comply, and indeed there were also some good outcomes for their own businesses. But the point is that their autonomy was taken away, and any other socially responsible investments they may have wanted to explore were overshadowed by the customer's requirements and needs. Spence and Bourlakis (2009) suggest that corporations and their leaders don't necessarily occupy the moral high ground within a supply chain, yet they often dictate the standards which should be adhered to.

THINK THEORY

What are the ethical issues when an organization (mis)uses its power to promote a good cause, such as by imposing its own ethical code on its suppliers, even if it is not entirely suitable or relevant to them?

Visit the online resources for a suggested response.

9

THE QUESTION OF LOYALTY

Related to the issue of power is the question of loyalty. If a company has been reliably supplying another for many years, should this entitle them to some kind of stability and commitment from their partner in terms of ongoing orders and support? In the case of agricultural suppliers to supermarkets, supply of meat will require investment by the farmer a year or more in advance of the point of sale in order to raise the necessary cows, pigs, chickens, or lambs (Spence and Rinaldi 2014). From an ethical point of view, though, does it make sense to suggest that firms have some kind of moral obligation of loyalty to their suppliers—and if so, how do we determine which suppliers can legitimately expect loyalty, and what exactly does an obligation of loyalty entail?

Loyalty is one of the virtues often prized in business, but loyalty to suppliers does not easily fit with an economic view of the firm that stresses the importance of free competition in order to achieve the most beneficial outcomes. According to this view, if a retailer, such as Carrefour, is 'encumbered' by loyalty, which prevents them from selecting new suppliers that offer higher quality or lower costs, then the retailer will become less competitive and its final consumers will have to face higher prices and/or poorer-quality products. However, questions remain about the role of loyalty in such arrangements and the benefits of longer-term commitments.

These arguments can be used to construct a fairly robust defence of intra-organizational loyalty from a consequentialist point of view, provided the area of business involved is one in which benefits can accrue through longer-term working relationships. General Motors, the US automotive company, for example, announced plans to build longer-term relationships with its core suppliers in order to develop the kind of innovations in safety and fuel economy that it had identified as increasingly necessary for competitive success (Colias 2014).

Some industries, however, appear to rely almost exclusively on short-term transactional supplier relationships. This is particularly the case where the products being exchanged are commodities with little potential for adding value through the supply arrangement, such as basic manufacturing components, or simple foodstuffs like rice and sugar. In this case, the ethical case for loyalty to suppliers might have to rely on deontological or virtue-based reasoning. The issue of supplier loyalty becomes considerably more complex, however, when we look at the potential for conflicts of interest to arise between the different parties.

As a final point in this section, it is worth also noting that supplier–customer relationships are two-way—we might also reflect on loyalty in the other direction—do suppliers owe loyalty to their customers beyond the financial commitments of fulfilling orders placed?

THINK THEORY

How would you apply deontological reasoning to the question of loyalty to suppliers? Does this offer, in conjunction with the consequentialist argument above, a sufficient rationale for judging the actions of companies such as General Motors to be ethical or unethical?

Visit the online resources for a suggested response.

9

CONFLICTS OF INTEREST

Conflicts of interest are critical factors in causing various ethical problems, not just in relation to suppliers. However, procurement and supply chain management are areas where conflict of interest is particularly likely to surface (Handfield and Baumer 2006). A **conflict of interest** occurs when someone 'has a private or personal interest sufficient to appear to influence the objective exercise of their official duties, e.g. as a public official, employee, or professional' (MacDonald et al. 2002). So a conflict of interest always involves a breach of an explicit obligation to act in another's interest (Boatright 2012: 101).

Conflict of interest Where a person's or organization's obligation to act in the interests of another is interfered with by a competing interest that may obstruct the fulfilment of that obligation.

In a business-to-business context, a conflict of interest can arise in two main ways:

- **Conflict of professional and organizational interests.** When a firm is hired as a supplier of professional services of one sort or another its official duties are to act in its client's interest. However, the supplier firm may experience a conflict with obligations to look after its own financial interests. For example, an audit firm may help to cover up financial irregularities on the part of its client in order to gain more work from the client. Accounting firms, marketing agencies, law firms, and investment bankers are all organizations that might face conflicts of interest of this sort (Boatright 2012). In Chapter 6 (The role of financial professionals and market intermediaries), we also described how rating agencies, as suppliers of financial information to investors, experience conflicts of interest because they are dependent on income from investment providers.
- **Conflict of personal and organizational interests.** Sometimes, an individual employee's interests may conflict with those of their employer. For example, the procurement and sales staff of two trading companies have obligations to act in the best interests of their respective firms (i.e. their 'official duties' are to their organizations) but these obligations may at times clash with the employees' personal interests; for example, if the salesperson offers the procurement manager hospitality or gifts to encourage them to seal a deal that is not the best one possible for their company.

The types of personal, professional, and organizational interests that might be at stake here can vary considerably, but those that tend to garner most attention are those involving money, gifts, hospitality, favours, and other kinds of financial inducements. However, it is not always easy to distinguish between a friendly gift and an outright bribe in business-to-business situations, so it is worth spending a little more time investigating how exactly personal inducements can be distinguished.

DISTINGUISHING PERSONAL INDUCEMENTS

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Gifts, gratuities, hospitality, bribes, kickbacks, bungs, sweeteners—there is seemingly no end to the variety of terms that are used to describe the official and unofficial 'perks' that procurement staff might be offered in the course of their interactions with salespeople. Some of these offers might be innocent and quite genuine expressions of gratitude; some might be part and parcel of maintaining a strong buyer–seller relationship or deeply embedded cultural practices. Some, however, will simply be inducements to get business that would not otherwise have been earned by more legitimate means. The offering of personal inducements is consistently identified by procurement staff as one of the main ethical issues confronting their profession (Cooper et al. 2015), but many questions remain unanswered about where to draw the line between acceptable and unacceptable practice in offering hospitality to buyers (Oakley and Bush 2012).

The key issue here is that gifts and hospitality often involve procurement staff in a *conflict of personal and organizational interest* (Fisher 2007). When a purchaser receives a personal benefit from the seller—such as a bottle of whisky, a trip to a sports event, or an envelope stuffed with money—the problem is that the purchaser may be swayed to make a decision that does not fulfil their obligation to their employer.

Of course, many of us could probably quite easily rationalize that the gift did not affect our decision, particularly if it was unsolicited or it was received after the actual transaction took place. How could one be influenced by something that had not even happened when the decision was made? There are a number of ways of looking at this, as shown in **Table 9.1**.

Table 9.1 Influential issues in gift giving to procurement professionals

Variable	Alert to potential ethical dilemmas
Intention of the gift-giver	Is their intention to gain an additional advantage (as opposed to merely offering thanks for a job well done)?
Impact on the receiver	Is the evaluation of the gift-giver enhanced after receiving the gift—relates to present and future decision-making?
Perception of other parties	Might a competing supplier interpret the giving of the gift as a deliberate bribe?

The final point in Table 9.1 of the perception of others is important here, even though it is not a direct issue between the two parties concerned. Perception of bribery and corrupt practices, in particular, is a problem that can erode trust and reinforce a culture of dishonesty. For instance, imagine if you heard that your class tutor had received a Christmas present of an expensive bottle of champagne from one of your class members. Regardless of the intention of the student, or its impact on the tutor, if the student received high grades in the course then you might well start questioning the integrity of your teacher.

As we saw in Chapter 4, once a culture of dishonesty has been created, the prevailing ethic in the workplace can be difficult to dislodge and profoundly influential on subsequent behaviour. The procurement environment seems to suffer more than most other organizational functions in relation to the conditions that might foster ethical abuse.

In an attempt to counter this, many large organizations have a formal procurement code of ethics in place, and guidelines for appropriate behaviour on issues such as gifts and hospitality are provided by professional bodies, such as the one provided by the Chartered Institute of Procurement and Supply (see Figure 9.2), which explicitly states that members of the institute should refrain from accepting any inducements or gifts, except those of nominal value that are declared to their employer, and should not allow offers of hospitality to influence (or appear to influence) their business decisions.

The fact remains, though, that some industries are more prone to problems of personal inducements than others. For example, the pharmaceutical industry has long provided a wide range of expensive gifts to doctors who might prescribe their drugs, including holidays, meals, free travel, and tickets to sporting events. In the US alone, this activity runs into billions of dollars a year in expenditure by pharmaceutical companies (Oakley and Bush 2012). There have been a variety of attempts to tackle this problem. For instance, in the US, the pharmaceutical industry instituted a voluntary set of guidelines in 2008 that prohibited the donation of branded promotional items to doctors, while the Indian government imposed a self-regulatory code on the industry that effectively banned most forms of gifts and inducements from 2015 (Mukherjee 2014). Sceptics, meanwhile, criticized the initiatives for their voluntary nature and the ease with which companies could evade the restrictions.

ETHICS IN NEGOTIATION

Finally, any discussion of ethics in supplier relationships is not complete without addressing the issue of business–supplier negotiation. As we said at the start of this section, many commentators have identified a shift away from adversarial supplier relationships towards something closer to a partnership model, suggesting that negotiation might be less subject to questionable ethics than in the past. Although there may be some truth to this, the whole process of

Figure 9.2 Chartered Institute of Procurement and Supply's Code of Professional Ethics

As a member of The Chartered Institute of Procurement & Supply, I will:
Enhance and protect the standing of the profession, by:

- never engaging in conduct, either professional or personal, which would bring the profession or the Chartered Institute of Procurement & Supply into disrepute
- not accepting inducements or gifts (other than any declared gifts of nominal value which have been sanctioned by my employer)
- not allowing offers of hospitality or those with vested interests to influence, or be perceived to influence, my business decisions
- being aware that my behaviour outside my professional life may have an effect on how I am perceived as a professional

Maintain the highest standard of integrity in all business relationships, by:

- rejecting any business practice which might reasonably be deemed improper
- never using my authority or position for my own financial gain
- declaring to my line manager any personal interest that might affect, or be seen by others to affect, my impartiality in decision making
- ensuring that the information I give in the course of my work is accurate and not misleading
- never breaching the confidentiality of information I receive in a professional capacity
- striving for genuine, fair and transparent competition
- being truthful about my skills, experience and qualifications

Promote the eradication of unethical business practices, by:

- fostering awareness of human rights, fraud and corruption issues in all my business relationships
- responsibly managing any business relationships where unethical practices may come to light, and taking appropriate action to report and remedy them
- undertaking due diligence on appropriate supplier relationships in relation to forced labour (modern slavery) and other human rights abuses, fraud and corruption
- continually developing my knowledge of forced labour (modern slavery), human rights, fraud and corruption issues, and applying this in my professional life

Enhance the proficiency and stature of the profession, by:

- continually developing and applying knowledge to increase my personal skills and those of the organisation I work for
- fostering the highest standards of professional competence amongst those for whom I am responsible
- optimising the responsible use of resources which I have influence over for the benefit of my organisation

Ensure full compliance with laws and regulations, by:

- adhering to the laws of the countries in which I practise, and in countries where there is no relevant law in place I will apply the standards inherent in this Code
- fulfilling agreed contractual obligations
- following CIPS guidance on professional practice

Source: https://www.cips.org/en-gb/aboutcips/cips-code-of-conduct. Reproduced courtesy of the Chartered Institute of Procurement & Supply

Table 9.2 Costs of unethical negotiation practices

Cost	Ethical implications
Rigid negotiating	Lack of flexibility and openness can draw negotiators into a narrow view of the tactics available to them if they are perceived as having been successful in the past. In longer-term relationships, a less rigid approach may help to yield more advantageous win-win solutions
Damaged relationships	Where negotiations are part of a longer-term cycle, the costs of unethical negotiation may mount, as negotiators turn into embittered enemies rather than mutually supportive partners
Sullied reputation	Unethical negotiation can have a negative influence on the individual's or their company's image, making future bargaining more troublesome
Lost opportunities	Unethical negotiation not only undermines the negotiators' capabilities to reach mutually beneficial win-win agreements, but it also tends to prevent any progressive discussions which could bring new, profitable issues to the table

Source: Based on Reitz et al. (1998)

negotiation between buyer and supplier inevitably raises some ethical tensions, given that the situation itself is often characterized as one of two combatants coming together to do battle. As noted in Table 9.2, there are practical as well as moral costs to unethical negotiation practices. As Reitz et al. (1998) suggest, to many people, ethics and negotiation are like oil and water: they just do not mix. To illustrate their point, they list ten popular negotiating tactics, all of which they contend can be challenged on ethical grounds:

- Lies—about something material to the negotiation.
- Puffery—i.e. exaggerating the value of something.
- Deception—including misleading promises or threats and misstatements of facts.
- Weakening the opponent—by directly undermining the strengths or alliances of the opponent.
- Strengthening one's own position—for example, by means not available to the opponent.
- Non-disclosure—deliberately withholding pertinent information that would be of benefit to the opponent.
- Information exploitation—misusing information provided by the opponent in ways not intended by them.
- Change of mind—engaging in behaviours contrary to previous statements or positions.
- Distraction—deliberately attempting to lure opponents into ignoring information or alternatives that might benefit them.
- Maximization—exploiting a situation to one's own fullest possible benefit without concern for the effects on the other.

Table 9.2 presents somewhat of an overly negative perspective on ethics in negotiation between buyers and sellers. Firms' dealings with their suppliers do not always have to be characterized as a tussle between warring combatants; negotiation is, after all, a conversation between two people. Somewhat more challenging, however, is the idea that this can also be true of their relationships with their competitors. Let us now look at this in more detail.

PRACTITIONER SPOTLIGHT 9 Making supply chains sustainable

Global supply chains are complex to manage and attributing accountability for ethical decision-making can often be a challenge. **Shaun McCarthy OBE, Director for Action Sustainability in the UK**, shares his 'portfolio career' in driving more sustainable approaches to procurement.

Can you tell us a bit about your current role? I have a portfolio career. Primarily I am a Director of Action Sustainability, a niche consultancy business and social enterprise which I founded in 2006. We employ around 20 people and specialize in sustainable supply chains where we are recognized internationally as experts. We are based in London but have recently opened a business in Sydney. I am also Chair of the Supply Chain School, a unique collaboration in the UK built environment sector to upskill the supply chain. In addition, I am Chair of the Professional Standards Committee, a board member of the Institute of Environmental Management and Assessment (IEMA), and I led the UK delegation in development of ISO 20400, the global standard for sustainable procurement practice.

What practical skills are needed to do your job? Sustainability is a fast-moving subject. Ten years ago, few people were talking about carbon, five years ago air quality was not really on the agenda, now we are talking about all these things plus modern slavery, ethics, social value, the list goes on. More recently, plastics have become the centre of attention. So, firstly, the ability to grasp new things quickly and sort the real issues from the fluff is a key skill. Secondly, it is essential to communicate in a way that makes things simple for people. I spend a lot of my time saying, 'So this is what you need to do'.

What has been your career path to date? I have changed direction in my long career many times. I left school at 16 in the early 1970s and took an apprenticeship as a mechanical fitter, which I was very bad at. Unperturbed by this, I left at the end of my four-year apprenticeship to go into full-time education. After another four years I was able to prove conclusively that I was a very bad engineer.

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My next career move was as a Sales Engineer in the oil and gas sector. I was quite good at that. I joined Shell as a buyer, because I wanted to join Shell and not because I wanted to be a buyer. This led to ten years' great experience in procurement. In 1995, I joined BAA PLC (now Heathrow Airport Holdings) in a senior procurement role. This was my first encounter with sustainability as I was addressing how to engage SMEs and minority businesses in the supply chain. I went on to manage the utilities for seven airports, developed one of the UK's first corporate carbon strategies, and then a sustainable procurement strategy. This involved a huge amount of external stakeholder engagement. Here I joined the London Sustainable Development Commission and took a role as Chair of their Olympic group supporting the successful bid for London 2012.

By 2006, I didn't have time to go to work anymore so I packed in my job, started Action Sustainability and took a role as Executive Chair of the Commission for a Sustainable London 2012, a unique assurance body overseeing sustainability for the Olympic programme. After seven great years, several learnings emerged but two were to shape my career going forward. Firstly, there was a significant shortfall in sustainability competence in the construction supply chain which led me to start the Supply Chain School. Secondly, major sports bodies were not effective in managing human rights, so I helped the Institute for Human Rights and Business to start an international centre for human rights and sport, engaging with organizations such as FIFA, the International Olympic Committee, and major sponsors.

If you could change one big world issue, what would it be? It would have to be climate change. Like most four-year-olds, my grandson is fascinated by dinosaurs. They were earth's dominant species for something like 130 million years. Humans have had the planet for around 300,000 years and we have managed to screw it up. Mother Nature will take care of herself by making the planet uninhabitable for us until another dominant species comes along. I don't think history will judge us well if we don't act now.

SOURCES

https://www.iema.net.

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www.cslondon.org.

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ETHICAL ISSUES AND COMPETITORS

As we have already mentioned, while there is some disagreement in the literature as to whether competitors are actually legitimate stakeholders in an organization, there does seem to be a reasonable case for suggesting that we can expect a certain level of ethical behaviour between competitors. Of course, this certainly does not preclude active, or even quite aggressive, competitive behaviour between rivals. In fact, as we saw in Chapter 8 (and shall elucidate on below), the deliberate avoidance of competitive behaviour is itself a cause for ethical concern should consumers and other stakeholders be disadvantaged as a result.

The point is that there appears to be a need to establish some kind of parameters regarding the limits to competition at either end of the scale. This means that ethical issues in dealing with competitors can relate to two distinct problems:

- **Overly aggressive competition**—where a company goes beyond acceptable behaviour in its direct relationship with a competitor, thereby harming the competitor in a way that is unethical.
- **Insufficient competition**—where the actions of one or more companies act to restrict competition in a market, thereby harming consumers in a way that is unethical.

In the following, we shall examine the main issues and dilemmas that arise in both areas.

PROBLEMS OF OVERLY AGGRESSIVE COMPETITION

In a competitive global marketplace, firms are expected to act aggressively in trying to secure a competitive advantage against their competitors. However, sometimes this behaviour goes beyond the ethical boundaries of acceptable competitive behaviour—for instance, when competitors engage in spying, dirty tricks, and anticompetitive practices.

Intelligence gathering and industrial espionage

All organizations collect and make use of some kind of information about their competitors; just as a university or college will typically investigate the courses offered by its main competitors, so too will companies take a keen interest in the products, policies, and processes undertaken by their rivals. Indeed, such intelligence-gathering activities are very much a standard aspect of conventional market research and competitor benchmarking, and make for effective competitive behaviour. As Andrew Crane (2005) suggests, though, ethical questions arise when one or more of the following are deemed to have occurred:

- The *tactics* used to secure information about competitors are questionable since they appear to go beyond what might be deemed acceptable, ethical, or legal business practice.
- The *nature* of the information sought can itself be regarded as in some way private or confidential.
- The *purposes* for which the information is to be used are against the public interest.

Questionable tactics may take many forms, from the clearly illegal, such as breaking and entering a competitor's offices to steal information, either physically or by accessing computer networks, to rather more grey areas. These grey areas include eavesdropping, searching through a competitor's rubbish, hacking, hiring private detectives, covert surveillance through spy cameras or electronic 'spyware', misrepresenting oneself by posing as a potential customer or employer, pressuring competitors' employees to reveal sensitive information about their operations, or even simply being accidently exposed to sensitive data due to human error (Hallaq and Steinhorst 1994; Crane and Spence 2008).

Some of these tactics are doubtful from an ethical point of view primarily because they violate a duty to be honest and truthful in business dealings and might easily be criticized from the perspective of deontological precepts such as the 'golden rule'—do unto others as you would have them do unto you—or Kant's categorical imperative test. Moreover, once such methods become accepted into business practice—or to use Kant's words, they become 'universal law'—all firms tend to lose out: (a) because the industry is likely to suffer from a loss of trust, and (b) because it becomes necessary for all industry players to commit resources to institute procedures guarding against the loss of trade secrets to unscrupulous competitors. As Boatright (2012: 99) argues, 'companies that routinely cross ethical boundaries in gaining competitor intelligence can scarcely expect others to respect their own trade secrets and confidential business information.'

Private or confidential information may refer to any kind of information that the organization feels should not be freely available to outsiders and that, therefore, should have some kind of moral or legal protection. While in principle this seems quite reasonable, it is rather more difficult to establish a corporation's right to privacy than it is an individual's—and certainly, the enforcement of privacy is considerably trickier. Specifically:

- Corporations are to some extent 'boundary-less'—they have fewer clear boundaries to define the private 'corporate space' compared with private individuals.
- Corporations consist of, and deal with, multiple individuals, making control of information difficult.

- Much corporate activity takes place in public and quasi-public spaces such as shops, offices, hospitals, colleges, cafés, etc., and via shared infrastructure and networks such as roads, railways, seas, telephone lines, Wi-Fi, fibre-optic cables, etc. These are easily and usually quite legitimately observed, infiltrated, or tracked.

However, even if it is difficult to fully ascribe a right to privacy to corporations, it is relatively more straightforward to suggest that certain information that corporations have is a form of property and is thus subject to *property rights* (Boatright 2014). This particularly tends to apply to trade secrets, patents, copyrights, and trademarks—all of which are to some extent legally enforceable *intellectual property* that is said to belong to the organization.

Intellectual property rights can be assigned to many intangible forms of property, including product formulations, theories, inventions, software, music, formulae, recipes, processing techniques, designs, and so on. The development of such 'information' frequently involves organizations in millions of dollars of investment in R&D costs. Unsurprisingly, corporations often go to great lengths and invest substantial resources in trying to keep this information secret from their competitors, so that they may reap the rewards of their investment. However, with rapid advances in information and communication technologies, the ease of replication of digital information, as well as the refinement of 'reverse-engineering' techniques (where competitors' products are stripped down and analysed in order to copy them), the unauthorized accessing and exploitation of intellectual property has been on the rise. China, in particular, has become a major source of intellectual property theft, with the US government estimating that China is behind some 50–80% of all intellectual property theft cases across the world, costing the US economy alone around $300 billion every year (Ovsey 2014).

Public interest issues can arise when the information gleaned through espionage is put to purposes such as anticompetitive behaviour, including the deliberate removal or ruin of competitors, price hikes, or entrenchment of a monopoly position. Public interest issues may also arise when intelligence germane to national or international security or domestic economic performance is secured. With corporations involved in designing, producing, and servicing military hardware and software, governmental data storage, and other security-related products and services, the accessing of company data by competitors (especially from overseas) or even foreign governmental agencies can lead to threats to the public interest.

Unsurprisingly, public interest issues usually rest on *consequentialist* reasoning, namely that the action can be said to cause an overall aggregate reduction in happiness for affected members of society. Should competition be reduced as a result of industrial espionage, then the public may suffer because of increased prices and lower innovation over the long term. Spying related to military or other sensitive information may harm the public through increased exposure to risks of various kinds. For instance, the US government has reported that among the spate of cyber intrusions from China in recent years, 'more than 40 Pentagon weapons programmes and nearly 30 other defence technologies have been compromised' (Tucker 2014).

'Dirty tricks'

Overly intense competition can also lead to questionable tactics beyond just stealing secrets and spying on competitors. A more generic term often used in the business world to describe the range of morally dubious practices that competitors occasionally turn to in order to outdo their rivals is 'dirty tricks'. In addition to industrial espionage, dirty tricks can include various tactics, among them as shown in **Table 9.3**.

Table 9.3 Dirty tricks tactics

Negative advertising	The firm deliberately sets out to publicly criticize their competitors, their products, or any product or performance claims the competitor may have made.
Stealing or poaching customers	A rival's customers are specifically approached (physically or digitally) in order to encourage them to switch suppliers. May use underhand methods such as misrepresentation, providing false information, bribery, or impersonating the competitor's staff.
Predatory pricing	Deliberate setting of prices below cost in order to initiate a price war and force weaker competitors out of the market. Also see Chapter 8.
Sabotage	Involves direct interference in a competitor's business in order to obstruct, slow down, or otherwise derail their plans.

While some of these tactics may seem a little extreme, they are not all that uncommon in contemporary business practice, or indeed the political sphere, where, for instance, very aggressive practices were used between Donald (subsequently President) Trump and Hillary Clinton in the 2016 US Presidential elections, where financial donations and votes were the prize rather than customers. In business, the international ride-sharing firm Uber, which we discussed in Chapter 7 in terms of its employment practices, has also been accused of a range of dirty tricks against its competitors, including poaching drivers and posing as customers of its rivals and then cancelling rides in order to tie up the drivers' availability and push customers over to Uber (Frizell 2014). One of Uber's competitors, Lyft, reported that Uber employees had ordered and cancelled more than 5,000 rides with the firm. Indeed, digital technologies continually expand the range of potential techniques available for dirty tricks. Malware, such as internet viruses, worms, and Trojan Horses, has been used by firms to sabotage their competitors' systems or to divert customers from their intended website onto a competitor's.

Anticompetitive behaviour

Putting rival firms out of business can be about more than just intense competition between two industry rivals. In many cases, the stakes are considerably higher, since the action can signal an attempt to deliberately restrict competition in an industry in order to reap longer-term profitability. As we argued in Chapter 8, such anticompetitive practices usually contravene competition law, which is in place to ensure fair competition and protect consumers and other firms from monopolistic behaviour. However, such charges can be extremely difficult to prove.

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For example, tech giant, Google, was investigated in the 2010s for anticompetitive practices in the US, Europe, Canada, and India with respect to potential abuse of its dominant position in search and related advertising services. Although the company was cleared in the US of demoting its rivals in its search results, the company risked a forced 'unbundling' of its search and other businesses in Europe or a fine of as much as $6 billion from the European Commission.[3]

PROBLEMS OF INSUFFICIENT COMPETITION

Anticompetitive behaviour can obviously also hurt consumers, particularly when it results in companies being able to abuse their dominance in a market to exploit customers through higher prices. Jonathan Taplin (2017) argues, in his book *Move Fast and Break Things*, that tech companies Facebook, Google, and Amazon have accumulated a huge concentration of monopolistic power in their respective areas, and that this is somewhat of an inevitable characteristic of the industry. Their grip on power will not last forever, with Facebook, for example, being shaken by facing questions over its data handling following reports that research firm Cambridge Analytica improperly gained access to the personal data of more than 50 million Facebook users (as we saw in Ethics in Action 5.1). According to CNBC, Facebook's stock shed more than 13% in the five days of trading following the initial reports.[4]

Sometimes other ethical problems arise, not so much because rivals are overly competitive with each other, but because competition is reduced by rivals being insufficiently competitive with each other. Most of such behaviours are precluded by competition law, but determining when firms have colluded can be difficult.

Collusion and cartels

At the other end of the scale from the intense rivalry and dirty tricks discussed above is where select groups of competitors band together in a cartel or trading group to fix prices and other trading arrangements for their own mutual benefit. Again, we briefly discussed this issue of collusion in Chapter 8 (Ethical issues in pricing section), since it mainly results in a potential threat to consumer interests.

GLOBALIZATION, SUPPLIERS, AND COMPETITORS: THE ETHICAL CHALLENGES OF GLOBAL PRODUCTION NETWORKS

Deterritorialization of the corporate value chain can be identified as an important influence contributing to the process of globalization. Back in the 90s, George Yip (1995) identified the key forces driving globalization in business to be: convergence of markets, global competition, cost advantages, and government influence.

The *convergence of markets* has meant that firms have increasingly sold their products across the world, thereby bringing them into direct competition with firms in, and from, different countries. This move towards *global competition* means that competitors may now hail from cultures with different understandings and expectations of business and of the nature of competition. Moreover, the impact of foreign competition in many countries might well have significant effects on the local economy.

The potential for *cost advantages* overseas has involved business in a fundamental restructuring of supply chains in the pursuit of lower-cost sites for production. This has seen vast numbers of multinational corporations shifting the sourcing and production of their products, components, and labour to less-developed countries—a move that has been expedited by *government influence* in these countries. Again, this has involved corporations in business relationships with organizations operating under a different set of cultural practices and assumptions, and where standards of working practices and health, safety, and environmental protection may differ markedly from at home.

What we have seen is a dramatic reshaping of ethical considerations and problems when dealing with suppliers and competitors in a global, as opposed to a purely locally based, production network. This reshaping brings to the fore four main considerations:

- Different ways of doing business.
- Impacts on indigenous businesses.
- Differing labour and environmental standards.
- Extended chain of responsibility.

DIFFERENT WAYS OF DOING BUSINESS

By coming into contact with overseas suppliers and competitors, corporate managers are often confronted with very different ways of thinking about and evaluating business ethics, establishing different ethical climates for business (Schleper, Blome, and Wuttke 2017). As we have already seen in earlier chapters, dealing with employees and consumers, it is clear that certain practices which may be morally questionable at home might be seen as perfectly legitimate in a different cultural environment, just as some practices that are perfectly acceptable in one's own country may raise questions overseas. For example, Jerold Muskin (2000) suggests that for *competitors*, differences in national culture and law give rise to different notions of *intellectual property*. While European, and even more so US, companies might expect the granting of exclusive rights to any novel technologies they develop, in Asia innovation is often seen as a public good to be used for the advancement of technology by all.

In the main, though, different ways of doing business are primarily important for corporations' dealings with their *suppliers*, particularly in relation to *gift giving*, *bribery*, and *corruption*. Different countries tend to exhibit differing attitudes towards the appropriateness of gift giving between customers and suppliers. As we saw in Chapter 1, in Chinese cultures the widespread practice of *guanxi*—namely, 'a system of personal connections that carry long-term social obligations'—places considerable emphasis on the desirability and acceptability of reciprocal favours and gift giving to develop and maintain relationships (Millington et al. 2005: 255). This establishes different cultural expectations around gift giving in buyer–seller relationships. While a European purchasing officer might easily interpret such a gift as an attempt at bribery rather than simple courtesy, if they refused to accept the gift they might risk causing offence, thus harming the business relationship and jeopardizing the deal.

Thomas Donaldson (1996) has suggested that, as Western firms become more familiar with such traditions, they have increasingly tolerated gift-giving practices and even applied different limits on gift giving and receiving in countries such as China and Japan. This, he argues, is not so much a matter of *ethical relativism* (which he claims, as we have, is a highly problematic approach to business ethics), but is simply a matter of respect for local tradition.

Going back to our ways of distinguishing personal inducements (see Distinguishing personal inducements section), if the act is without an *intent* to gain undeserved favour, if it does not have the *effect* of doing so, and if it is not *perceived* as doing so, then it should be regarded as acceptable when consistent with a broader social norm. This is especially the case when the norm also dictates that the giving is an *exchange*. There is a significant difference between a buyer and a seller exchanging gifts, and a salesperson simply offering the buyer a long line of presents with the expectation that the reciprocity would come in the form of extra business rather than a gift in return.

The main problem here is that people all too often regard this kind of respect for tradition as a signal that all local customs should be accepted and adapted to, regardless of their ethical implications. If we accept gifts from suppliers, then why should we blanch at taking or giving bribes to oil the wheels of business? The issue of corruption is a major problem in many countries. However, evidence suggests that managers in such cultures often draw a clear distinction between gift giving within a culturally accepted framework, such as *guanxi*, which is designed to build business relationships, and illicit payments that serve the purpose of lining people's pockets at the expense of their organization (Millington et al. 2005). It shouldn't be forgotten that the problem is not simply with those accepting bribes, but also with those willing to pay them. If no one were willing to pay a bribe, corruption wouldn't be profitable.

Respected not-for-profit organization Transparency International has, for many years, monitored propensity for corruption. Despite the increased regulation aimed at reducing bribery and corruption, in 2017 the Corruption Perceptions Index[5] found that most countries have made little progress in ending corruption.[6] The index ranks 180 countries and territories by their perceived levels of public sector corruption according to experts and business people. It uses a scale of 0 to 100, where 0 is highly corrupt and 100 is very clean. It is worth remembering when interpreting these that the index is of perceptions, and while the methodology is robust, care should be taken not to assume that the index measures actual instances of corruption—these would be impossible to access given their dubious nature. Similarly to previous years, in 2017 the Corruption Perceptions index found that more than two-thirds of countries scored below 50, with an average score of 43. The best and worst instances are perhaps revealing. New Zealand and Denmark rank highest with scores of 89 and 88, respectively, with three further countries on 85 (Finland, Norway, and Switzerland). Syria, South Sudan, and Somalia rank lowest, with scores of 14, 12, and 9, respectively. Transparency International calculate that the worst-performing regions are Sub-Saharan Africa (average score 32), and Eastern Europe and Central Asia (average score 34). In contrast, the best-performing region is Western Europe with an average score of 66.

Why is bribery so endemic to international business? The answer is often intuited that multinational businesses promulgate the practice because it is 'normal', 'expected', or 'customary' in the host country. Unless we are going to slip into relativism, though, this does not condone the practice. Just to say something is 'normal' does not imply that it is 'right'. Forty-three states across the world have now signed up to the OECD Anti-Bribery Convention. The convention is aimed at stamping out corruption in international business, and the broad range of signatories suggests a gathering international consensus over the undesirability of corruption, and a commitment to dealing with it. Nonetheless, enforcement of the convention remains a challenge for most states, with a recent report suggesting that there was little or no enforcement in about half of the signatory countries and more have limited enforcement.[7] This has led some countries (most prominently the US, with the Foreign Corrupt Practices Act, and the UK's Bribery Act 2010) to prosecute firms for overseas bribery, providing they have some commercial link to the home country.

In fact, for the individual manager, the question is not always one of whether bribery is right or wrong, but whether doing business in certain countries is even *possible* without such practices. Regardless of whether an individual firm has a code prohibiting bribery, or whether one's country has signed up to the OECD convention, if a reasonable level of business cannot go ahead without bribery, how is the individual going to proceed? Many multinational staff seem to be caught between the ethical commitments of their code and the realities of everyday business.

IMPACTS ON INDIGENOUS BUSINESSES

The role of multinationals in corruption is often one of perpetuating existing problems. However, they can bring new problems too. The size, power, and political influence of multinationals often means that they enjoy considerable cost and other advantages compared with local competitors. As Jennifer Spencer (2008: 341) suggests, multinationals 'can harm indigenous firms by posing strong competition in product, labour, and financial markets and by offering employment alternatives to individuals who would otherwise found their own business.' This can mean that the exposure to the competition of a major multinational such as Starbucks, IKEA, Microsoft, or Monsanto can 'crowd out' local enterprises and severely threaten the business of indigenous competitors (Klein 2000).

Of course, the introduction of more and better competition can often be a force for innovation, better products, lower prices, and economic growth. Multinationals can build value-enhancing partnerships with local firms, expose local entrepreneurs to new practices, and contribute to the human capital of local workers (Spencer 2008). This is why international organizations such as the WTO promote global trade, and why even humanitarian organizations such as the UN promote the desirability of market development for underdeveloped countries. However, such competition can also result in the matching of unequal rivals, where the ultimate consequence can be the elimination of local competition, and as we saw in Chapter 8, section 'Exporting and cultural homogenization', the commercial and cultural similarity of the high street worldwide.

The key point here is that multinationals may often be able to negotiate far more attractive trading arrangements than their weaker indigenous competitors; they may bring specialized management knowledge, economies of scale, advanced technology, powerful brands, and a host of other advantages (Dawar and Frost 1999). Similarly, they may be able to force local suppliers into accepting terms and conditions that barely keep them in business. There are clearly issues of fairness to be considered here, as well as questions of whether local competitors should be protected in some way—particularly if multinationals themselves are benefiting from certain protections. For example, the interests of large multinationals are often promoted by their own national governments (because their success is vital to economic growth), and even by host governments overseas (since the influx of jobs and investment can be highly beneficial).

This problem of unfair competition from multinationals is a particular cause for concern when it threatens the viability of an entire local industry, as this can lead to more fundamental social and economic decay. For example, the so-called 'banana war' (between the EU and the Caribbean on one side and the US and Latin American countries on the other) was the World Trade Organization's longest-running dispute, running from 1991 until 2012. The clash was a result of European attempts to protect small-scale Caribbean banana growers against cheaper imports from US multinationals, such as Dole foods, Del Monte, and Chiquita International. Many Caribbean countries had been reliant on the banana industry, but with costs up to double those of Latin American-based producers, the sustainability of the Caribbean industry was dependent on a special trading relationship it had built with former colonial powers in the EU that exempted Caribbean imports from the restrictions and tariffs on Latin American bananas. Latin American countries, partly driven by lobbying from American multinationals, lodged a series of complaints against the EU's 'discriminatory' system with the WTO. Over the course of the dispute, the US imposed sanctions on certain European imports, with the EU eventually agreeing to phase out its tariffs.[8]

THINK THEORY

To what extent is it appropriate to protect local businesses from 'unfair' competition from multinationals? Consider this situation from the perspectives of theories of justice and utilitarianism.

Visit the online resources for a suggested response.

DIFFERING LABOUR AND ENVIRONMENTAL STANDARDS

As firms from industrialized countries have increasingly sourced through global supply chains, probably the most prominent ethical problem to have come under the spotlight is the labour and environmental conditions under which their suppliers operate. You may remember that back in Chapter 7 we looked at the 'race to the bottom' occasioned by the demand by multinationals for lower-cost production in developing countries such as China, Indonesia, Vietnam, India, and Bangladesh. This raises substantial ethical problems for companies that source their products in lower-cost countries, for it is often the case that lower costs are accompanied by poorer labour conditions, less environmental protection, and lower attention to health and safety protection. These, as we have already mentioned a number of times in the book so far, can lead (and frequently have led) to human rights and other abuses.

The number of high-profile media exposés of such incidents has been phenomenal. Clothing and sportswear producers were initially the most affected, with accusations of sweatshop conditions being launched at various brands over the years including Disney, Gap, H&M, and Nike. Such problems have hardly receded since the 1990s, though, with a report from the International Textile Garment and Leather Workers' Federation naming no fewer than 60 high street brands involved in 'widespread violations and abuses of workers' rights' across the 83 Asian factories that it investigated. Such violations, the report concludes, 'continue to be the norm in the industry'.[9] The electronics industry has also very much been in the spotlight, with Apple in particular targeted for persistent labour violations in its supply chain (Merchant 2017).

Typically, this debate has mainly centred on pay, working conditions, and child labour. The fundamental conventions of the International Labour Organization, however (which are probably the most widely recognized and influential agreements on labour rights), also refer to broader issues such as freedom of association, equality, and forced labour, etc. Many companies have discovered (or their critics have discovered for them) that in their suppliers' factories, workers have been paid below a living wage, subjected to physical and verbal abuse, worked compulsory overtime, failed to have statutory rights to time off recognized, and faced a range of other violations of basic labour rights.

We saw in Chapter 3 that different ethical theories provide a range of arguments for and against such labour practices. However, these conditions have been seen as all the more inequitable because of the startling comparison that they make with the prices paid by consumers in Europe and the US for the products they make, as well as the pay and conditions earned by staff in the company's head office—in particular, the stellar remuneration packages of the companies' CEOs. For example, a report by Oxfam (2018) finds that, on average, it takes just over four days for a CEO in one of the top five garment companies to earn what an ordinary Bangladeshi woman (such as those women creating the products sold by those garment firms) earns in a *whole lifetime*. Such disparities are alarming, and to many appear unjustifiable when the total costs of labour in producing clothes, for example, typically only amount to something like 1% of the final retail price (compared with 25% for brand profit, overheads, and promotion) (Robins and Humphrey 2000).

Different environmental and health and safety standards in suppliers' countries can also provide a loophole through which firms can potentially secure lower-cost supplies by bypassing the stringent standards in their country of origin. For example, the recycling of 'end-of-life' electronic waste (see Chapter 8, 'Product recapture') has increasingly been outsourced to developing countries in Asia and Africa. Despite international laws banning the export of hazardous waste to developing countries, the combination of spiralling amounts of waste, lax regulation, and a thriving and lucrative informal economy in countries such as China, India, Ghana, and Nigeria has led to a growing problem of unregulated reprocessing, where the release of lead, mercury, and other dangerous chemicals poses serious threats to human and environmental health. Millions of tonnes of electronic waste are illegally shipped by companies in the developed world to unscrupulous processors in developing countries, with Interpol reporting that almost one in three shipping containers leaving the EU that were checked by its agents contained illegal e-waste (Vidal 2013). The problem of 'digital cemeteries' of e-waste has therefore become a major ethical issue for manufacturers and recyclers alike. In 2009, the US computer producer Dell was the first major technology company to ban exports of its e-waste to developing countries, while more recently it has helped to establish formal e-waste recycling programmes in some of the worst-hit areas in order to ensure safer handling of hazardous materials (Clancy 2013).

EXTENDED CHAIN OF RESPONSIBILITY

Ultimately, the implication of these shifts towards global supply and competition is that individual firms are faced with an *extended chain of responsibility*. Where once it may have been perfectly acceptable to argue that the ethics of a firm's suppliers, or a firm's impact on its competitors, was simply none of its business, this idea has been gradually swept away. The different social and economic conditions present in other countries, as well as the sheer inequalities brought to the surface by international trade, have meant that the relatively level playing field constituted by national business has been replaced with the sloping and bumpy playing surface of globalization.

What we see now is that relations with other businesses are no longer only conducted within a national community with legislation and broadly agreed rules of the game that are considered to be fair to all. Hence, corporations have to consider their ethical responsibilities much more broadly, not least because pressure groups have discovered that the best way to focus attention on practices and conditions in anonymous factories in far-off places is not to target the factory itself, but to target the big brand multinational which sources its products from it. Supply chains are now widely seen as key sources of reputation risk. This does not mean that a firm's responsibility through its supply chain is boundary-less, but it does mean that firms are expected to take moral responsibility for actions in their supply chain that they can realistically influence (Amaeshi et al. 2008). **Ethics in Action 9.1** points to some of the ways in which supply chain ethics can be managed and supported by industry-based tools and initiatives. Questions remain, however, about whether it is acceptable for large corporations to act as a kind of Corporate Social Watchdog—making decisions about what is correct practice and what isn't—for

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Ethics in Action 9.1 **Practical resources for managing supply chain ethics**

For most companies, the challenge of tackling ethics in the supply chain is a daunting task. It is one thing to manage business ethics internally, but where do you start in dealing with all your suppliers, and their suppliers, and so on? Even companies with lots of experience in one area of supply chain ethics may lack expertise in important new areas such as supply chain sustainability. Suppliers, too, need help in developing ethical relationships with their corporate customers.

Increasing demands for improved supply chain ethics have led to the emergence of numerous practical resources to help managers get to grips with some of these challenges. A leading example is the United Nations Global Compact: Sustainable Supply Chains Resources and Practices. This comprehensive resource focuses on the key issues of human rights, labour, environment, and corruption and can be searched by both geographical region and industry. Information is available on initiatives, programmes, codes, standards, tools, and networks relating to supply chain ethics. Case studies of company practices include Levi Strauss & Co.'s Worker Wellbeing initiative (expected to reach more than 300,000 workers by 2025) and Italian oil and gas company Enel's approach to governing supply chain practices.

Another source of practical advice and guidance is provided by Business and the Community, under their Marketplace programme on responsible supply chains. A notable feature is the interesting assortment of case studies of successful company initiatives from British American Tobacco's work with tobacco growers, the office equipment company Ricoh's green procurement initiative, and Sainsbury's programme to develop sustainable fish sourcing for its UK supermarket business.

Of course, if you are a manager looking for practical help with supply chain ethics then you are probably already convinced that your company needs to take the issue seriously. But what about other people in the organization—the marketing, purchasing, or operations staff who remain uncommitted to ethical practices—or the suppliers or customers that will need to come on board to make any new initiatives successful? The Ethical Trading Initiative provides resources for managers facing these challenges, with fact sheets, leaflets, DVDs, and video clips that lay out the case for ethical trade, and how to secure buy-in from key stakeholders. The site also offers access to codes of conduct, workbooks, guidelines, and other useful materials for practitioners.

A further major challenge faced by companies in implementing ethical sourcing is finding out credible information on the practices of current or potential suppliers, and of course the time and expense involved in auditing and monitoring them. Sedex, the Supplier Ethical Data Exchange, is a non-profit organization that enables firms to share such information through a secure, confidential online portal. Sedex also provides a valuable service to suppliers because it enables them to complete one self-assessment questionnaire that they can then share with multiple purchasing companies rather than going through the process of individual assessments one by one.

Resources such as these offer managers—and students of business ethics—plenty of insight into the practicalities of ethical supply chain management. And for those looking for further support and assistance, they also offer consultancy, membership, advisory services, and conferences, along with the freely available materials. After all, the organizations behind these resources are also potential suppliers (and we might hope ethical ones) of business services for the corporate community.

SOURCES

Business in the Community: http://www.bitc.org.uk.

Ethical Trading Initiative: http://www.ethicaltrade.org.

Sedex: http://www.sedexglobal.com.

United Nations Global Compact: Sustainable Supply Chains Resources and Practices: http://supplychain.unglobalcompact.org/site/index.

QUESTION

Think about the examples here in terms of an extended chain of responsibility. Should large and small firms alike be expected to consider what happens in their supply chain as part of their corporate responsibility?

Visit the online resources for web links to useful sources of further information.

their supply chain, since there is no guarantee that they have the moral resources or overview to make the most ethical decisions (Spence and Bourlakis 2009). As we shall now see, shifts in expectations around extended responsibility have led to the supply chain being increasingly used as a conduit for ethics management and regulation.

THE CORPORATE CITIZEN IN BUSINESS-TO-BUSINESS RELATIONSHIPS: ETHICAL SOURCING AND FAIR TRADE

We stated in Chapter 2 that one of the most crucial areas where corporations enter the realm of citizenship and begin to take over the role of governments is in the regulation and control of other businesses. This can be mainly seen to happen through the supply chain, via a process known as ethical sourcing.

ETHICAL SOURCING

Ethical sourcing (also known as ethical trade or responsible supply chain management) occurs when a supply chain member introduces social and environmental criteria into its purchase decisions in order to support certain practices and/or suppliers. Much like ethical consumption that we discussed in Chapter 8, ethical sourcing represents the idea that firms (rather than individual consumers) use their buying power to influence the practices of those they purchase from.

Ethical sourcing The inclusion of explicit social, ethical, and/or environmental criteria into supply chain management policies, procedures, and programmes.

Since the 1990s, when UK hardware retailer B&Q took the step, many large companies have included some kind of criteria of this kind in their procurement policies and agreements (Hughes 2005). Since this time, various firms across industries as diverse as apparel, cars, cosmetics, food, and technology have introduced supplier codes of conduct intended to prevent environmental, labour, and human rights abuses in their supply chains.

The centrepiece of many ethical sourcing programmes tends to be some kind of social audit process designed to ensure compliance with the firm's sourcing guidelines in supplier factories, farms, and other production units. The practice of designing, implementing, and enforcing a code of ethics was discussed in detail in Chapter 5 ('Setting standards of ethical behaviour: designing and implementing codes of ethics'), where we were mainly concerned with managing ethics internally. We saw that there were four types of codes, any of which might be used in ethical sourcing, namely corporate codes (such as Apple's Supplier Code of Conduct), a professional code (such as the Chartered Institute of Procurement and Supply's code of conduct shown in Figure 9.2), industry codes (such as the Responsible Business Alliance Code of Conduct that 'sets standards on social, environmental and ethical issues in the electronics industry supply chain'),[10] or a programme code (such as the Ethical Trading Initiative base code—see Chapter 10). However, it is important to recognize that when the process of managing ethical codes is extended to the supply chain, it becomes even more difficult to implement effectively because the firm does not have direct oversight or control over what is happening in its suppliers' workplaces. In particular, many firms have struggled with providing effective *traceability* in their supply chains—that is, their supply chains are so long and complex that they do not know with any certainty where all their raw materials come from. So, although many companies have been relatively quick to introduce supplier codes of conduct, the implementation of effective monitoring and enforcement has proved to be more problematic. Emerging technologies such as blockchain, which has its origins in the controversial bitcoin digital currency, will help traceability challenges considerably (*The Economist* 2015). Blockchains are digital solutions to following a supply chain that overcome the problem of poor transparency in supply chain transactions. They are based on shared public ledgers of transactions, which are trustworthy and can be checked by anyone. As a result, blockchain technologies can record business-to-business transactions relating to a given product, effectively providing a register of each stage of the supply chain.

Clearly, the mere inclusion of ethical sourcing criteria in supply chain management is no guarantee that they will improve supplier behaviour. However, studies have shown that supply chain pressure has been a key factor in prompting suppliers to seek various social and environmental certifications of one sort or another, even when they are not necessarily perceived as intrinsically valuable. These include accreditations such as the staff training and development award Investors in People (Ram 2000) and the environmental quality standard ISO 14001 (Delmas and Montiel 2009).

For example, in the early 2000s, all of the American 'big three' carmakers—Ford, GM, and Chrysler—requested their suppliers to adopt ISO 14001 accreditation—although only about 25% actually did so before the deadline set by the companies. As Delmas and Montiel (2009) demonstrate, the willingness of suppliers to comply with or resist such initiatives is strongly determined by the type of relationship they have with the companies that purchase from them. Specifically, those suppliers with a high dependence on their customers are more likely to comply (because their assets cannot easily be deployed in supplying other firms), as are those that are relatively new entrants to the industry (because they need to build up their reputation). For suppliers, the public act of gaining ethical certification can therefore act as a way of reducing *information asymmetries* between themselves and potential buyers (King et al. 2005).

ETHICAL SOURCING AS BUSINESS-TO-BUSINESS REGULATION

In the absence of specific or sufficient legislation in suppliers' countries, or more usually where there is simply weak enforcement of existing legislation, this kind of supply chain pressure can be the most effective form of regulation for these companies. Although this is not regulation in the formal sense of ensuring compliance with government legislation, the pressure exerted by powerful corporate customers to comply with ethical sourcing guidelines and criteria does constitute some form of a regulatory intervention in the supply chain (Hughes 2005; Locke and Romis 2007). The threat of losing business or being delisted by a major customer can act as a powerful force for change, particularly when the threat is shown to be more than just an idle one. In particular, when *competitors* within an industry collaborate to introduce ethical guidelines for suppliers, it is often difficult for suppliers to avoid compliance.

This kind of pressure on suppliers can effect further change through the supply chain, and even in the wider business network. This is because not only are suppliers' own suppliers often involved in any progress towards compliance with ethical sourcing guidelines (and in turn *their* suppliers, and so on), but competing suppliers also have a chance to gain business if they have the right ethical policies or accreditations. Hence, a purchasing 'multiplier effect' can be set in motion, which has the potential to achieve social change more quickly and more thoroughly than any other single activity that a particular firm could undertake (Preuss 2005).

The success of ethical sourcing initiatives, however, depends on a number of factors. As Sarah Roberts (2003) explains, this includes the power of buyers and suppliers, the reputational vulnerability of network members, the diffuseness of the supply base, and the length of the supply chain between the corporate buyer and the companies where the ethical issues are most pronounced. This, she suggests, explains why ethical sourcing initiatives in the forestry products and apparel industries have been more successful than those in the confectionery industry. It is also worth noting that Denise Baden and colleagues have argued that pressure on small suppliers to comply with their customer's standards can have a perverse negative effect on supplier ethics standards (Baden, Harwood, and Woodward 2011). This shines a light on the often unexplored assumption that small supplier ethics and practices are in some way lesser compared to their large customers. In line with differences we discussed in Chapter 1, 'Business ethics in large versus small companies', a stream of work on small business counters this, suggesting a much more complex picture in which smaller firms might lack formal reporting and communication mechanisms, but they are not inherently unethical and in need of guidance by large firms (Spence and Bourlakis 2009; Wickert, Scherer, and Spence 2016).

Another factor to consider is whether ethical sourcing is attempted by individual firms alone, or whether whole groups of competing firms join together in a coalition to address the problem. Such industry alliances can take a number of forms, from setting up supplier codes of conduct, to systems of supplier auditing and evaluation. Frequently, they also involve civil society organizations or government agencies as advisers or even managers of the programme. We shall be looking at some examples of these types of multi-actor initiatives in Chapters 10 and 11, but in the meantime, let us consider the types of strategies that firms or alliances might use in ethical sourcing.

STRATEGIES OF BUSINESS-TO-BUSINESS REGULATION

There are essentially three main ways in which firms can effect ethical sourcing through the supply chain (see Frenkel and Scott 2002; Locke and Romis 2007):

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- **Compliance.** The compliance strategy involves the setting of clear standards for suppliers (e.g. a code of conduct), coupled with a means for assessing compliance with those standards (such as a social audit). Failure to meet standards in the short to medium term will result in disengagement by the company in order to do business elsewhere. The toy company Mattel's 'zero tolerance' policy on violations of its supplier code of conduct is illustrative of this approach, for example, in relation to the employment of underage workers and forced labour of any kind.[11] The compliance approach 'is characterized by global firm domination: the global firm develops and introduces the code, communicates its importance, and is responsible for its enforcement' (Frenkel and Scott 2002: 33).
- **Collaboration.** The collaboration strategy also involves setting standards and compliance procedures, but tends to rely on longer-term 'aims', together with incremental 'targets', in order to foster a step-by-step approach to improving standards. Here, the firm is likely to engage with its suppliers to achieve improvements, utilizing a collaborative approach based on partnership (though not power equality) (Frenkel and Scott 2002). The German sporting goods company Adidas is an example of a company that emphasizes this kind of collaborative, engagement type of approach (Frenkel and Scott 2002).

- **Development.** The development strategy may still include elements of a compliance or collaboration approach, but there is much more focus on ensuring that workers understand their rights and are provided with training to improve their capabilities and future prospects. For example, Apple trained 1.5 million supply chain workers on their rights in 2013, and provided free college classes in language skills, computing, and other subjects to nearly 300,000 such workers.[12] Supplier firms, too, may be aided by the purchasing firm, for example with technical and organizational assistance and investments in productivity that boost profits and therefore reduce the likelihood of suppliers exploiting workers.

Most firms and industries have tended to begin with a compliance strategy because it involves clear rules, and signals to suppliers and external audiences that the firm is serious about rooting out its problems. For example, **Ethics in Action 9.2** discusses how technology companies have gone about trying to ensure that electronic products are 'conflict free'—that is, produced without any minerals mined by armed groups in the Democratic Republic of Congo.

Compliance-based approaches, however, have not met with unqualified success. Investigations by academics, journalists, and campaign groups have frequently uncovered widespread violations in factories that have been recently audited. Either the audits were poor quality or there had been a deliberate attempt to deceive on the part of the factories. As a *New York Times* report concluded, 'the inspections are often so superficial that they omit the most fundamental workplace safeguards like fire escapes. And even when inspectors are tough, factory managers find ways to trick them and hide serious violations, like child labour or locked exit doors' (Clifford and Greenhouse 2013). In fact, deception of auditors appears to be widespread, with one study of Chinese toy suppliers, for instance, finding that even among the best-performing suppliers, deception of auditors was common, including the forging of documents, hiding of some workers, coaching employees about what to say to inspectors, and even paying them to say the right things (Egels-Zandén 2007). Vivek Soundararajan and colleagues, in their work on small businesses in Tirupur, India, supplying major Western brands, have found that small textile suppliers can find creative ways of working around the requirements and standards expected of them by their customers (Soundararajan, Spence, and Rees 2018). In short, it is worth remembering that impressive responsible resourcing codes are a long way from solving the challenges and problems of ethical supply chains.

Problems such as these have led many to question the effectiveness of the compliance strategy for business-to-business regulation through the supply chain. The evidence appears to suggest that, despite major efforts to implement effective social audits, worker rights have improved in a few areas but overall little has changed (Egels-Zandén 2014; Egels-Zandén and Lindholm 2015). As a result, many have advocated for a more collaborative or developmental strategy, built on partnership rather than control (Frenkel and Scott 2002; Locke and Romis 2007). One area where these types of collaborative and developmental approaches have been successfully introduced is in the fair trade industry.

FAIR TRADE

So far, we have discussed ethical sourcing as a form of regulation through the supply chain. This tends to give the impression that ethical sourcing is always a way of controlling suppliers.

Ethics in Action 9.2 Conflict-free minerals—tainted goods

Gary Niekerk, Intel's director of corporate responsibility, admits that the computer chip-maker was shocked into action on conflict minerals about five years ago, when NGOs questioned whether it was sourcing raw materials from the war-torn Democratic Republic of Congo (DRC).

'We asked our suppliers, do you know where you're procuring this stuff from? We didn't get much response—very little information came back. Then we were at a top-level meeting and our chief operating officer at the time, Brian Krzanich, who is now our CEO, said: I want this stuff out of our supply chain. Make it happen.'

Easier said than done, when Intel has about 16,000 suppliers worldwide. It was decided the simplest way to go about it was to visit the smelters—Intel staff have since been to 86 of them in 21 countries, travelling more than 250,000 miles. 'We were the first electronics company to visit a smelter. The thinking was that if we could get a smelter verified as conflict free, then we could get all our suppliers to use just those smelters.'

Today Intel, and the wider US industry, has made considerable progress, with recent legislation starting to underpin corporate efforts. The rationale is that trade in the minerals is a lucrative source of funding for armed groups in DRC, where an estimated 5 million people have died, rape is widespread as a weapon of war, and child soldiers are regularly recruited.

Regulation

In the US, Congress has taken steps to try to stem the trade. As of this year, the Dodd-Frank Act requires all Securities & Exchange Commission registered companies to report annually if their products contain any gold, tin, tantalum, or tungsten. The SEC estimates the ruling will affect about 6,000 companies in the US and abroad. These are not just in the electronics industry but range from automotive to aerospace, clothing (tin in zips, for instance), healthcare, and jewellery.

Companies must determine if the minerals may have originated in DRC or adjoining countries. If so, they must trace the supply chain via due diligence and potentially include an independent audit. A form must conclude whether a company has determined the source to be 'DRC Conflict Free', 'Not DRC Conflict Free', or, for the next two years, 'DRC Conflict Undeterminable' (four years for smaller reporting companies). This last category would not require an audit.

Yet there is clearly a long way to go in cleaning up the complex supply chains of the four major conflict minerals. After the June 2014 deadline for filing the first SEC reports, Sophia Pickles, a campaigner for Global Witness, said: 'While some firms have made strong submissions, most reports filed to date don't include enough information to show that companies are doing credible checks on their supply chains.'

In January 2014, Intel announced the world's first conflict-free microprocessor, an achievement that Niekerk says started as an 'internal goal' that became public. 'The vast majority of our consumer products, laptops or tablets etc, are now conflict free, though we still have others that we are working on.'

Julie Schindall, director of communications and stakeholder engagement at the Electronic Industry Citizenship Coalition (EICC), based in the US, says a growing number of companies at various levels in the supply chain now see a conflict-free minerals strategy as a core part of their business growth. 'Some publicize it and others don't. The supply chain is so long and intricate that even with the biggest and most progressive companies, it is not something that happens overnight but can take several years,' she says.

'Our whole programme began in 2008 and we've gone from two validated conflict free smelters in 2012 to about 100, so it has picked up a lot of momentum. But there's much more to do. One of the main challenges is that nobody knows how many smelters are out there.' The tipping point, Schindall argues, will be when the whole minerals industry works together, including smelters and refiners, and it becomes not just an ethical but a business imperative.

What proportion of the global supply of the four minerals is located in DRC mines? About 20% of the world's tantalum, Niekerk says, 'but as you go to tin, gold and tungsten they drop off to a small percentage. With gold, for instance, it's about 2%.' This means, at least with the last three minerals, that on a basis of simple probability, they are unlikely to be sourced from DRC in the vast majority of supply to various industries.

Buyer pressure

'It's more a question of how to set up a system to validate that because if you say there's only a 2% chance of us being indirectly involved in the murder and rape of millions of people—well, of course people want a zero chance and to feel confident about that,' Niekerk says. The likes of Apple, Dell, and Hewlett-Packard are highly active in their sourcing strategy, according to Niekerk. 'I know because they ask us to verify our materials are conflict free when they buy our microprocessors to put in their products.'

Another challenge is that the metals industry is constantly changing, Schindall says. 'The situation on the ground in the Great Lakes region of DRC is evolving all the time, so understanding what conflict free means is not static.'

Nor is the problem only related to DRC-sourced minerals. The US Department of Commerce struggled to draw up a definitive list of all known conflict-processing facilities worldwide by January 2013, which it was required to do under the Dodd-Frank Act.

The Department of Commerce identified 278 conflict mineral smelters and 82 of these were in China. Under EICC auspices, Intel and other companies ask smelters to undergo a voluntary audit that will qualify them as conflict free. To help towards cost, Intel has paid $400,000 into a fund for early adopters. Typically the audit will cost 'multiple thousands', perhaps up to $20,000, Niekerk says.

Most tungsten is used to make drilling bits for heavy-duty mining and other applications, so the EICC is urging companies in those sectors to join the campaign of gentle persuasion of smelters. In the case of China, for instance, a major tungsten producer, Niekerk is not surprised that this is sometimes a challenge.

'Imagine us saying, we want to look through your books, your shipment manifest, your inventories. Nobody likes an audit, and what happens if you fail? But we respect confidentiality and only publicize the ones that pass. Still, if the tables were turned and it was Chinese companies coming to US smelters, we'd probably see similar reluctance.'

Ultimately, an audit is only a 'snapshot in time' that will need frequent revisiting, Niekerk argues. On the plus side, the Dodd-Frank Act and EU legislation will strengthen the case for more transparency on this issue around the world.

The European Commission announced draft legislation in 2016 that required all except the smallest importers of tin, tungsten, tantalum, gold, and their ores to exercise due diligence in line with OECD guidance. The legislation aims to stop the financing of armed groups and human rights abuses through trade in minerals from conflict areas.

9

SOURCE

Phipps, Sam. 2014. Conflict free minerals—tainted goods. *Ethical Corporation*, 10 September: http://www.ethicalcorp.com.

QUESTION

Think about conflict-free minerals from the perspective of different strategies of ethical sourcing. Which approach or approaches have been attempted by the electronics industry and what would you say are their prospects for success?

Visit the online resources for web links to useful sources of further information.

However, in some cases ethical sourcing can actually be more developmental, where suppliers that are seen to be socially beneficial in some way are protected, rewarded, and assisted in achieving development goals (Hughes 2005). For example, the Body Shop has for many years operated a 'Community Fair Trade' programme, which seeks to assist small-scale, indigenous communities in enhancing their standard of living through supposedly 'fair' contracts to supply product ingredients to the company.

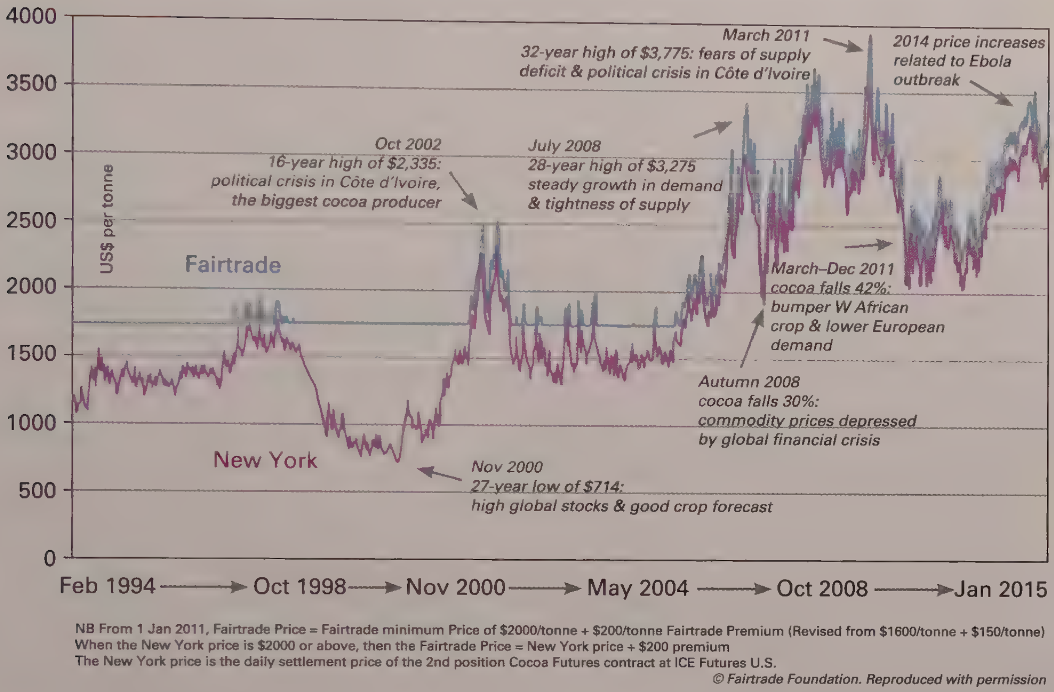
Approaches to ethical sourcing that focus on equitable trade arrangements, small-scale producers, and supplier empowerment are usually referred to as *fair trade*. As Smith and Barrientos (2005) suggest, the two types of approach—ethical sourcing and fair trade—have traditionally been quite different. Ethical sourcing has mainly been driven and implemented by big brand multinationals, while fair trade has been more relational in approach and led by alternative trading organizations. Although there has been growing convergence of the two approaches (Smith and Barrientos 2005), fair trade retains a distinctive flavour, or what some refer to as an 'ethical value-added' to conventional trading arrangements (McMurtry 2009). That is, fair trade is a system aimed at offering 'the most disadvantaged producers in developing countries the opportunity to move out of poverty through creating market access under beneficial rather than exploitative terms; the objective is to empower producers to develop their own business and wider communities through international trade' (Nicholls and Opal 2005: 6).

Fair trade A system of exchange based on guaranteeing producers in developing countries a living wage, decent working conditions, and opportunities for community development.

The point is that many of the growers of everyday products such as coffee, tea, rice, and fruit live in poverty and are faced with poor working conditions, exploitation, and limited health, safety, and environmental protection. At the heart of this problem are international commodity markets, which often set prices that fail to provide the growers even with a living wage. The aim of the fair trade movement is to foster the protection and empowerment of growers, as well as to encourage community development by guaranteeing minimum prices and conditions (Nicholls and Opal 2005). This is achieved through the application, monitoring, and enforcement of a fair trade supply agreement and code of conduct, verified by an independent social auditing system. Common international standards are set by Fairtrade International, while auditing and certification is conducted by its sister organization FLOCERT. National bodies such as the Fairtrade Foundation (in the UK), Max Havelaar (in much of Europe), Reilun Kaupan (in Finland), or Fair Trade USA (in the US) promote the fair trade system in their respective countries.[13] Products sourced and produced according to the strict Fairtrade conditions are permitted to use the 'FAIRTRADE Mark', a logo that indicates to consumers that growers have received a fair price and been afforded decent conditions and community support.

The systems put in place by fair trade organizations ensure that whatever price the market may allocate to goods such as cocoa and tea, the growers involved are guaranteed a minimum price by the purchaser. And, if market prices exceed this minimum, fair trade farmers receive a premium in order to finance development goals. As a result, growers are not only prevented from sinking into poverty at the whim of commodity markets, but can also plan and implement community initiatives. **Figure 9.3** provides an illustration from the cocoa market of how the guaranteed price offered by Fairtrade has compared with market prices over time. Many growers involved in the fair trade system also organize into local co-ops in order to ensure that the benefits are shared appropriately and so that community development can be promoted.

Figure 9.3 The cocoa market 1994–2015: comparison of Fairtrade and New York prices



Source: © Fairtrade Foundation

The fair trade movement initially operated through charitable organizations such as Oxfam, and alternative trade organizations (ATOs) such as Traidcraft. For many years now, fair trade products have also been sold through mainstream supermarkets, and other high street stores such as the Body Shop have introduced their own operations outside of the established international framework for fair trade accreditation. Within the established fair trade movement there has been a move away from its charity-supported background towards more mainstream corporate involvement (Doherty et al. 2013). This has given rise to the emergence of private sector for-profit fair trade companies, such as Divine Chocolate, which markets chocolate products in the UK and the US, as well as the incorporation of fair trade products into mainstream companies such as high street retailers and major food brands like Cadbury and Nestlé. This greater commercialization was accompanied by a steady growth in penetration of fair trade products peaking, thus far, in 2013, at around £1.71 billion fair trade sales of food and drink products in the UK, for instance.[14] Since then there has been a drop, which stabilized at around £1.61 billion in 2018. Reasons for this include the changing market structure of supermarkets, which we discussed earlier in the chapter, the rise of the discount supermarkets Lidl and Aldi, and perhaps reaching the limit of consumer willingness to pay more for fair trade. Sainsbury's supermarket is the largest retailer of Fairtrade products worldwide, for example, and even they came under fire in 2017 for dropping the Fairtrade mark for their tea products, replacing it with a 'fairly traded' label, and setting its own standards and requirements rather than following the global Fairtrade standards. Tesco similarly looked to move away from the Fairtrade scheme to the Rainforest Alliance instead (Vidal 2017).

While the shine of Fairtrade had been tarnished, the market has remained overall and such changes in the market structure and overall successes can also have their drawbacks. In 2013, Doherty and colleagues predicted that the increasing commercialization of the fair trade movement risks potential co-optation by business, dilution of its ethical standards, and possible reputational damage to the fair trade movement perhaps this is now coming to pass (Doherty et al. 2013). There are also issues to consider within fair trade organizations themselves. The need to recruit employees with mainstream business skills and experience (rather than just commitment to fair trade values) also poses challenges for maintaining the ethical culture of fair trade firms (Davies and Crane 2010).

Perhaps the most important question, though, is whether the continued success of fair trade is providing a positive force for change for the growers it is intended to help. While some critics suggest that fair trade's focus on guaranteed prices provides a disincentive to improve productivity that ultimately hinders rather than helps farmers (Porter and Kramer 2011), others point to the inequities that are created by guaranteeing higher prices for some farmers while excluding others (Booth and Whetstone 2007). In the face of such criticisms, the fair trade movement itself commissions regular impact assessments from independent research organizations that have demonstrated considerable benefits to farmers and their workers. For example, an impact assessment of small Brazilian producers of certified oranges (to be used in fair trade orange juice) showed that fair trade accelerated economic growth and created higher income for the majority of producers, improved their quality of life, and helped to keep them in business while many non-certified producers failed (Schiesari and Beat Grüninger 2014).

THINK THEORY

Fair trade is presented as a fairer means of doing business—benefits are distributed more equally and basic rights are protected. However, some critics have argued that such schemes might be deemed unethical. What arguments might there be against fair trade practices, and which theoretical bases do you think they are derived from?

Visit the online resources for a suggested response.

9

SUSTAINABILITY AND BUSINESS RELATIONSHIPS: TOWARDS INDUSTRIAL ECOSYSTEMS?

Finally, we need to look at the corporation's relationships with other companies in the context of sustainability. What does it mean to think of a sustainable supply chain and work in the kind of role that is discussed in **Practitioner Spotlight 9**, or more broadly, a sustainable business community? We shall look at three key levels here: sustaining the supply chain; turning supply chains into supply loops; and building industrial ecosystems.

SUSTAINING THE SUPPLY CHAIN

As we have just seen, approaches such as fair trade are one way in which notions of sustainability can be addressed through business–business relationships. The mixture of economic, social, and environmental goals associated with fair trade programmes are very much within the spirit of sustainability thinking and are concerned with more than just the fairness of exchange relationships in a narrow economic sense. They also emphasize the importance of sustaining suppliers and the communities and environments where they are located. Indeed, it is increasingly recognized that one of the critical best practices in sustainable supply chain management is a focus on *supply chain continuity*—that is, ensuring the stability and capability of one's suppliers at every level in the supply chain (Pagell and Wu 2009). Firms that ignore threats to the continuity of their supply chain risk being unable to develop effective sustainability initiatives since these are heavily reliant on the actions and investments of supply chain members. For example, what would it mean to be a sustainable hamburger restaurant if the social, economic, and environmental stability of cattle farming could not be assured?

Sustaining the supply chain requires firms to engage in a variety of initiatives, from training and financing of suppliers to enable them to switch over to more sustainable production methods, to investing in local community development. More broadly, investments in supply chain continuity are also critical for developing greater linkages among the various firms in the supply chain—and even for turning such chains into more sustainable 'closed-loop' systems.

TURNING SUPPLY CHAINS INTO SUPPLY LOOPS

As we proposed in Chapter 1, sustainability encourages us to think about the long-term maintenance of systems, raising issues of resource efficiency, pollution prevention, and waste minimization. In Chapter 8 we introduced the notion of product recapture—i.e. bringing 'waste' products back into the supply chain as resources—as a way of developing more sustainable consumption. As we suggested, such a development shifts our thinking about supply relationships away from a linear view towards a more circular perspective. If wastes are to be recaptured and brought back into productive use, we need to think not of supply chains, but of supply loops that create a circular flow of resources (we illustrated this in **Figure 8.6**).

Replacing supply chains with supply loops is not just about recapturing products sold to end consumers, though. Every activity that a firm engages in produces wastes or by-products that can be captured and potentially reused in a way that makes them productive again. For example, waste carbon dioxide, the major gas contributing to climate change, can be captured at source and used as a resource in applications such as rooftop greenhouses that produce crops.[15] These developments have given rise to the increasingly popular idea of the **circular economy**, i.e. a way of organizing economic activity built upon the idea of supply loops, which ensure that the resources that go into production, rather than eventually becoming waste, ultimately become inputs into new products. The design principles behind the circular economy have been a part of sustainability thinking for decades but the concept has gained considerable popularity since the turn of the century. The Ellen MacArthur Foundation has been a leading promotor of the circular economy with business and governments, arguing that this approach builds economic, natural, and social capital. At a national level, China, which faces a huge problem with waste, reviews its circular economy plans every five years, embarking on its 13th iteration in 2016. Achieving a circular economy is no small challenge. There are also regional differences. While the Chinese take on the circular economy inspired by its rapid industrialization includes pollution and other perspectives, along with waste and resource concerns, Europe's conception is more narrowly environmental in scope, emphasizing waste and resource perspectives and related opportunities for business (McDowall et al. 2017).

> **Circular economy** A way of organizing economic activity based on returning all resources involved in the production of goods and services back into productive use with the goal of eliminating waste and reducing material inputs.

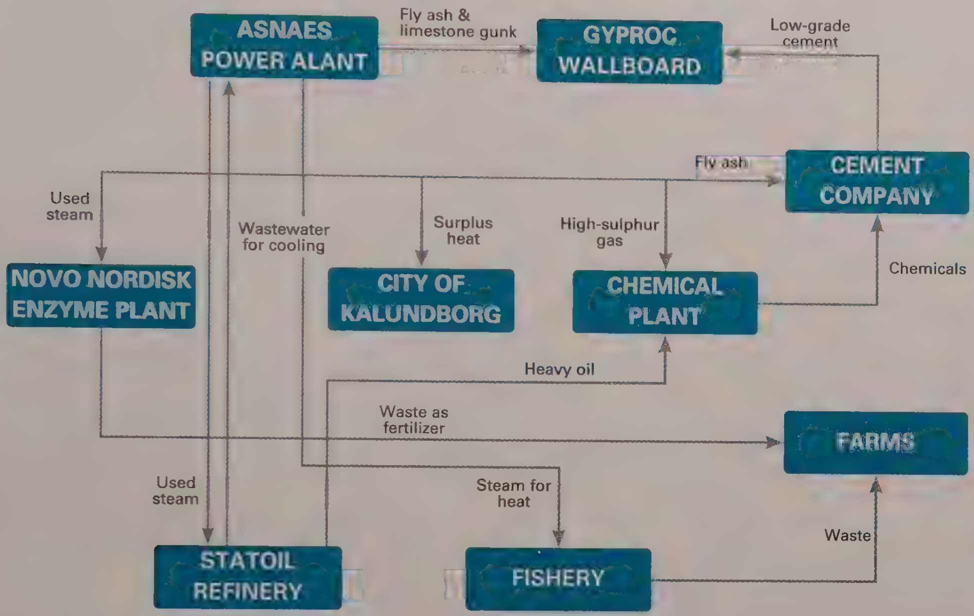
Early enthusiasts for the concept hoped that such closed-loop, circular models would not only reduce waste, but eliminate the very concept of waste. Although typically seen as an additional cost burden on firms (e.g. as a result of product take-back legislation), circular models have also been shown to be important potential sources of value recovery (Guide and Wassenhove 2006). That is, rather than disposing of 'used' resources, organizations can transform waste into valuable materials that can be deployed productively. One report, conducted by SYSTEMIQ in collaboration with the Ellen MacArthur Foundation, finds that scaling the circular economy in Europe offers investment opportunities totalling €320 billion in the food, mobility, and built environment sectors alone.[16]

Closing supply loops to increase resource efficiency and minimize waste places a considerably larger burden on inter-firm relationships than is the case with more traditional linear modes of supply. According to a review of research on circular economics from 2016, such approaches require the engagement of all stakeholders, including the adoption of cleaner production patterns at company level, an increase of producers' and consumers' responsibility and awareness, the use of renewable technologies and materials (wherever possible), as well as the adoption of suitable, clear, and stable policies and tools (Ghisellini, Cialani, and Ulgiati 2016). To achieve ongoing product recapture, reuse, recycling, and re-manufacture, firms have to communicate, exchange information, develop joint proposals, co-design, and conclude stable exchange relationships. In many instances, firms have to seek out, develop, and institutionalize new markets for recaptured components. For example, Nike's 'Reuse-A-Shoe' programme turns used sports shoes into 'Nike grind', a material used by surfacing companies in sports surfaces such as gym flooring, basketball courts, and soccer fields, as well as product components like the zipper pull on some Nike jackets. Around 1.5 million shoes are recycled annually, and that has been going on for decades.

INDUSTRIAL ECOSYSTEMS

Supply loops and the circular economy begin to shift our way of conceiving organizations away from an atomistic view, where each organization is seen as a separate entity with its own inputs and outputs, towards a more system-oriented view, where groups of firms are seen as interdependent entities that share resources and produce a shared environmental burden. Returning to the idea that we should be thinking in terms of global production networks rather than linear chains, sustainability urges us to take such thinking still further. We can also begin to conceive of wider communities of organizations bound by interdependence of all kinds of resources and wastes. These are called *industrial ecosystems*, and while they have an earlier heritage than the currently more popular circular economy approach, they continue to add value to sustainability thinking. According to the classic work of Paul Shrivastava (1995), the concept of industrial ecosystems parallels that of natural ecosystems: just as natural ecosystems comprise a balanced network of interdependent organisms and their environments, which feed off each other and

Figure 9.4 Kalundborg industrial ecosystem



Source: Republished with permission of Academy of Management, from Shrivastava, P. 1995. Ecocentric management for a risk society. *Academy of Management Review,* 20 (1): 118-37; permission conveyed through Copyright Clearance Center, Inc

give and take resources from each other to maintain equilibrium and survive, so too can businesses use each other's waste and by-products to minimize the use of natural resources.

Some industrial systems are planned, such as the network of companies in Kalundborg, Denmark (see Figure 9.4), which is centred around a range of industrial companies and farms that use one another's wastes and by-products as raw materials, co-ordinating their use of energy, water, raw materials, and waste management. Other formal, planned projects have also been developed, often to be found in so-called 'eco-parks' or even 'eco-cities'. This includes initiatives in the US, Europe, and Asia—although these have met with mixed success (Chertow 2007). One of the more successful to date is Tianjin Eco-City, which welcomed its first residents in 2012 and continues to thrive, both as one of the world's largest ports and a sustainable city.[17]

Examples of 'self-organizing' rather than planned networks include the city of Jyväskylä in Finland, the network clustered around the Guitang Group sugar refinery in China, and the mineral-processing area of Kwinana, Australia (Chertow 2007). One of the most complex and diverse examples yet uncovered is the industrial recycling network in the Austrian province of Styria, which includes a network of exchanges among over 50 facilities.

Whether industrial ecosystems will ever become more than an interesting, perhaps even utopian, vision of how industry could be organized remains to be seen. Much will no doubt rest on how local and national governments go about supporting, encouraging, and planning such initiatives. However, with the general shift towards more collaborative business activity identified at the outset of this chapter, and the drive for more climate-friendly approaches intensifying, closed-loop business models of various levels of complexity will undoubtedly become an increasingly important, if challenging, component of the industrial mix of the future.

SUMMARY

In this chapter, we have discussed the stake held by other companies in a corporation, focusing on both suppliers and the somewhat more contestable role of competitors. Our argument was that there were certainly issues of an ethical nature that arose in both groups of companies that went well beyond the legal protections of fair business practice. These included: misuse of power, loyalty, conflicts of interest, bribery, and negotiation with suppliers; and intelligence gathering, industrial espionage, dirty tricks, anticompetitive behaviour, and abuse of a dominant position in the context of competitors. Globalization appears to have substantially increased the scope of these problems, suggesting expanded responsibilities for corporations over the span of their operations.

Despite these challenges, developments in our understanding of the relationships between businesses appear to increasingly emphasize the importance of interdependence and co-operation. This is both in terms of our descriptive understandings (how businesses *do* relate) and our normative assessments (how they *should* relate). Nonetheless, ethical problems persist, and we are left to wonder if all parties can ever benefit equally from business interdependence. Many of the apparent problems are mainly raised simply by the highly competitive nature of contemporary industries and markets, particularly when the basic rules of the game do not favour all companies equally. Hence, it would appear that, in the global economy, there will always be winners and losers—and justice, even within the so-called business 'community', can be elusive. Indeed, as the scope of business operations expands, the ethical problems become more wide-ranging and complex, and so the stakes inevitably increase.

That said, business relationships are also increasingly seen as one of the main levers for effecting greater attention to social and environmental problems. In this chapter, we have mainly looked at intra-organizational pressure through the supply chain, but such self-regulation from business can also happen among competitors. The point is that government is certainly not the only source of business regulation, and that much informal and formal control takes place within the business community itself. As we shall see in Chapter 10, we should not even stop there. In addition to government and business, we also need to think about another sector involved in business regulation, namely pressure groups, or what have become known as 'third sector' or 'civil society' organizations.

STUDY QUESTIONS

1. Compare the case for (a) suppliers, and (b) competitors to be regarded as stakeholders of a corporation. How convincing are the arguments proposing that each group is a legitimate stakeholder?
2. What is a conflict of interest? Outline the conflicts of interest that might typically arise in firm–supplier relations.
3. Should firms accept gifts from overseas suppliers? How can a firm ensure that its relationships with suppliers are strictly ethical if gift giving is allowed?
4. 'Competition between rival firms is like a battle. You play to win and anything goes.' Critically assess this statement in the context of Western multinationals competing with domestic firms in developing countries.

5. What is ethical sourcing? What factors are likely to influence the success of ethical sourcing in changing supplier practices?
6. Explain the main differences between circular economy and industrial ecosystems.

RESEARCH EXERCISE

Select a high street retailer of food, clothes, or electronics and conduct some research on their ethical sourcing practices so that you can answer the following questions:

1. Describe the supply chain infrastructure that the firm uses—for example, does it have few or many suppliers, where are they based, etc.?
2. How would you describe your selected company's approach to ethical sourcing—for example, is there an overall strategy in place, what are the different components of the system, and how far down the supply chain does the initiative go?
3. What other organizations, if any, does the firm work with in managing its ethical sourcing programme? Can you explain why these organizations are involved?
4. To what extent does the firm report on the outcomes of its ethical sourcing initiatives?

KEY READINGS

1. Jones, I.W. and Pollitt, M.G. 1998. Ethical and unethical competition: establishing the rules of engagement. *Long Range Planning*, 31 (5): 703–10.
   This classic article is one of the few that considers ethical issues with respect to both suppliers and competitors—and does so within an economic framework that illuminates the crucial competitive elements in inter-firm relationships. Although they are now a little dated, the use of short case studies of different industries helps to show why certain ethical and unethical practices might be more or less likely to arise in particular contexts. This remains a good introduction to the topics in this chapter.
2. Reinecke, J.T.U., Donaghey, J., Wilkinson, A., and Wood, G. 2018. Global supply chains and social relations at work: brokering across boundaries. *Human Relations*, 71 (4): 459–80.
   This article by Juliane Reinecke and colleagues is part of a special issue in the journal *Human Relations on* the social aspects of interorganizational relationships in global supply chains. As such it looks at the intermediaries which help to broker these relationships and their role mediating the ethical issues in this space, and identifies a number of different approaches which will be a helpful addition to the ideas presented in Chapter 9.

9

Visit the online resources for further key reading suggestions.

CASE 9 Uzbek cotton: a new spin on responsible sourcing?

This Case describes the controversy surrounding the use of cotton sourced from Uzbekistan by high street clothing brands and retailers. It sets out the allegations of poor working conditions in the industry, most notably around child and forced labour, and traces the subsequent response by major companies. It offers an opportunity to examine the challenges of using responsible sourcing to protect human rights, specifically in the context of complex global supply chains in the clothing industry.

Most clothing brands and retailers have become accustomed to dealing with problems of child labour in their supply chains. Codes of conduct banning the most unsavoury sweatshop practices, regular factory audits, and other measures are now largely standard practice in the industry. But these initiatives usually just start and finish at the gates of the factories making the clothes. What about the raw materials, such as cotton, which are used to make the clothes in the first place?

Cotton is the indispensable element in most of the clothes we wear. Shirts, t-shirts, jeans, dresses, underwear—you name it, cotton goes into it. However, the question of who grows that cotton, and under what kind of conditions they work, is rarely one that we think too much about. But all that began to change when revelations started emerging in the 2000s that Uzbekistan, currently the world's fourth-largest cotton exporter, made extensive use of forced and child labour in harvesting its annual cotton crop. With the media and civil society organizations exposing how classrooms were emptied across the country every year to pick the harvest, major clothing brands had a major ethical problem on their hands. Efforts by many companies to boycott Uzbek cotton have gone some way in dealing with the issue, but significant problems remain in protesting those at risk of human rights violations and ensuring the integrity of their supply chains.

The Uzbek cotton industry

The Central Asian Republic of Uzbekistan, a former part of the Soviet Union, is one of five countries dominating global cotton exports, the others being the US, India, Australia, and Brazil. Uzbekistan is widely regarded as being an oppressive regime, led by President Islam Karimov, who was in power for over 25 years until his death in 2016, followed by Shavkat Mirziyoyev, who was previously the Prime Minister. The country has limited media freedoms, low levels of democracy, high corruption, and a poor record of human rights violations. The Uzbek government rigidly controls cotton production, using a Soviet-style quota system. This involves compulsory state purchase, and various forms of pressure to ensure that targets are met.

According to the Environmental Justice Foundation, 'cotton production in the Central Asian Republic of Uzbekistan represents one of the most exploitative enterprises in the world'. Due to the low, centrally set prices paid to farmers for their quota, a large proportion of the profits generated by cotton exports is retained by regional governors and the state. Cotton farmers typically suffer due to low pay and poor working conditions. Reports from the foreign media and NGOs have identified a range of human rights violations in the industry, the most serious of which concern the use of forced and child labour.

Child labour accusations

According to many independent observers, child labour has long been rife in the Uzbek cotton industry, and it has been actively condoned and even facilitated by the state. Due to underinvestment in technology, unlike most other countries, some 90% of Uzbek cotton is harvested by hand rather than by machine. The need for labour during the cotton harvest is so acute, and cost pressures from regional governors are so severe, that much of the harvesting has typically been carried out by children or young adults who are forced to work in the cotton fields.

Reports have suggested that, during the harvesting season (typically from September to November), schools have been closed and tens of thousands of children compulsorily transported to the fields to help with the harvest. Younger children would be returned home by bus or truck every day, but older children would often spend the season living in barrack-style accommodation in local farm or school buildings, sometimes without water or electricity. During this time, child cotton workers could miss up to three months of school, usually toiling all day at strenuous manual work. The children are poorly paid (around 40 cents a day), and have to pay for their own food and transport, sometimes even leaving them with next to nothing for their work after deductions have been made.

This desultory picture of the Uzbek cotton industry was first exposed in detail in a comprehensive 2005 report from the Environmental Justice Foundation. Running to some 45 pages, the report, *White Gold: The True Cost of Cotton*, set the child labour allegations within the broader context of the authoritarian nature of the Uzbek regime and the complex cotton trading system. In addition to child labour and other human rights abuses, the report also detailed a swathe of environmental problems associated with the cotton industry in Uzbekistan. Concluding that 'cotton production in Uzbekistan occurs within a framework of systematic exploitation, human rights violations, and environmental destruction', the report argued that 'clothing manufacturers and retailers have an obligation to look beyond the "sweatshops" and into the cotton fields . . . Corporate enterprises must make a critical assessment of their role in driving the problems . . . and demonstrate that their supply chain does not exacerbate the chronic situation within Uzbekistan.'

At first, the response from the international business community was muted. As the executive director of the Environmental Justice Foundation put it: 'EJF has been repeatedly told, "we can't tell where the cotton comes from, our supply chain is too complicated and so we can't boycott Uzbek cotton, even if we wanted to". Case closed, so to speak.' To some extent the corporations had a point. Because of the complexity of international supply chains, the provenance of the cotton used in any particular garment is very difficult to determine. Countries such as Uzbekistan sell their cotton to international commodities-trading companies, who then sell it on to a chain of processors, manufacturers, and stitchers, before it arrives as a complete garment on the shelves of retailers. The commodity nature of cotton means that a final product will typically consist of cotton from a variety of sources. So, while clothes usually feature a label stating where the product was made, the source of its raw materials remains invisible to buyers.

Companies take action

As the pressure on firms mounted over the last decade or so, the message started to change. The Finnish clothing design company, Marimekko, and the Estonian textile producer, Krenholm, both announced a boycott of Uzbek cotton in November 2007. A string of clothing brands and retailers followed suit and signed up to the boycott, including the UK retailers Asda, Tesco, and Marks & Spencer, the Swedish chain H&M, and the US brands Gap and Levi's. Suddenly the impossible was possible.

The boycott marked a major victory for campaigners. More importantly, it prompted a major turnaround in Uzbekistan. In 2008, the government announced that it would ban children under 16 from picking cotton, it signed ILO conventions committing the country to stop using child labour, and instituted a National Plan of Action aimed at meeting the ILO commitments.

Despite the progress being made in Uzbekistan's policies around child labour, the picture on the ground appeared to be improving little. A 2010 University of London report, for example, found that forced child labour was still widely used in Uzbekistan and argued that problems had, if anything, worsened since the country had ratified the ILO conventions. The corporate boycott intensified in 2011 when the NGO, Responsible Sourcing Network, launched the Cotton Pledge. The purpose of the pledge was to consolidate the boycott activity and provide a clearer and more public commitment from companies sourcing cotton. It stated:

> As a signatory to this pledge, we are stating our firm opposition to the use of child forced labour in the harvest of Uzbek cotton. We commit to not knowingly source Uzbek cotton for the manufacturing of any of our products until the Government of Uzbekistan ends the practice of forced child and adult labour in its cotton sector. Until the elimination of this practice is independently verified by the International Labour Organization, we will maintain this pledge.

Initially signed by 50 companies, the pledge now numbers more than 150 companies, including firms as diverse as American Apparel, Adidas, Burberry, Gucci, IKEA, Lululemon, Pottery Barn, and Zara. The pledge had a major impact on Uzbek cotton exports, with the annual Uzbek International Cotton and Textile Fair, for the first time, beginning to register no direct sales to a Western buyer. Uzbekistan's then prime minister responded by ordering that schoolchildren should not to be sent to pick cotton, with subsequent NGO reports indicating a significant decline in the use of young children from 2012 onwards.

Despite the appearance of progress, it soon became clear that the Uzbekistan government had simply shifted the demographics of forced labour in the cotton harvest. Rather than young children, the government had begun conscripting older children (aged 15–18), university students, and adults, including employees of state organizations—teachers, doctors, and nurses—to work in the fields. The cotton pledge was thus expanded in 2013, and pressure on the Uzbek authorities continued anew. The same year, another partial victory was recorded when, after years of refusals, Uzbekistan finally allowed the International Labour Organization access to monitor the harvest, as specified under the cotton pledge. However, only a limited monitoring mission was permitted, with a mandate limited to child labour and not adult forced labour. Not much has changed, according to the Uzbek-German Forum for Human Rights and Cotton Campaign. In 2017, in addition to the systematic mobilization of the Uzbek population for agricultural work, employees of the educational and medical sector are involved in other public services, mainly cleaning streets, planting flowers, and clearing roadside irrigation ditches.

Important questions remain about the likely impact on the lives of forced labourers in Uzbekistan and the long-term implications of the boycott.

One major problem is that the Western boycott appears to have pushed the Uzbeks to target other markets less concerned about their exploitative labour practices. Indeed, despite the ban by large Western companies, Uzbekistan has continued to expand its other markets for exported cotton, particularly in Asia and Russia. Actual cotton exports have remained relatively constant since the boycott, with Bangladesh, China, and South Korea now being the major markets for Uzbek cotton. The growing importance of these export markets has given the Uzbek authorities good cause to resist changes in labour conditions. While Western brands and their consumers might feel better about boycotting Uzbek cotton, it has clearly not, as yet, ended forced labour.

Another upshot of this, of course, is that it actually remains very challenging for boycotting companies to ensure with any certainty that their products are free of Uzbek cotton, because it might enter the supply chain elsewhere. When spinning mills produce yarn they often mix cotton from a number of different sources, and few companies have sufficient traceability in their supply chain to know the exact source of every bale of cotton used. Cotton from Uzbekistan can enter the supply chain via the brands' major manufacturing hubs in Asia. For most companies, even those who have signed up to the cotton pledge, this means that their public statements on the issue are understandably guarded, with most unwilling to offer any cast iron guarantees that their cotton is entirely free of forced or child labour. Typically, they suggest, like the Walt Disney Company does, that they have 'no knowledge' of Uzbek cotton being used in their products, and that they ask suppliers to make 'their best efforts' not to include Uzbek sources. Efforts are underway to improve traceability in the cotton supply chain but at present, as one supply chain compliance expert noted: 'no one can really guarantee that a product has not been produced without any ILO convention violations'.

QUESTIONS

1. Who are the main actors in the cotton supply chain and what stages are involved in transforming cotton from an agricultural crop to a finished product for consumers?
2. Describe the approach adopted by Western brands to deal with human rights violations in the Uzbek cotton supply chain.
3. To what extent has this approach been successful so far? In your opinion, what accounts for this success or failure?
4. Should Western companies consider further action to help protect Uzbek cotton workers, or have they already effectively discharged their ethical responsibility by instituting a boycott of Uzbek cotton? What other alternatives are open to them?
5. If you were working for a group dedicated to eradicating child and forced labour, what would your strategy be for the cotton industry?

Visit the online resources for web links to useful sources of further information on this Case.

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10

Civil Society and Business Ethics

Having completed this chapter you should be able to:

- Explain the role played by various types of civil society organizations as stakeholders of corporations, both directly and indirectly.
- Conduct an ethical analysis of the tactics used by civil society organizations towards corporations to achieve their purposes.
- Critically evaluate the impacts of globalization on the nature and extent of the role played by civil society towards corporations.
- Explain the different relationships between business and civil society and their impact on corporate responsibility.
- Explain the role of civil society in enhancing corporate sustainability.

Key Concepts

- Civil society organization (CSO)
- Social licence to operate
- Boycott
- CSO accountability
- Employee volunteering
- Social enterprise
- Civil regulation

INTRODUCTION

So far in Part B of this book, we have looked at business ethics in relation to the corporation's four main economic stakeholders—i.e. those vital constituencies that provide firms with the resources they need merely to exist. Shareholders supply capital, employees provide labour, consumers provide income, and suppliers provide the materials necessary to produce products and services. In this chapter, and in Chapter 11, we shall broaden our scope to consider other stakeholders outside the immediate economic realm of the corporation—in this chapter, civil society, and in the next, government. These constituencies, as we shall see, also have important stakes in the corporation, and various ethical problems and issues can arise in the corporation's dealings with such actors.

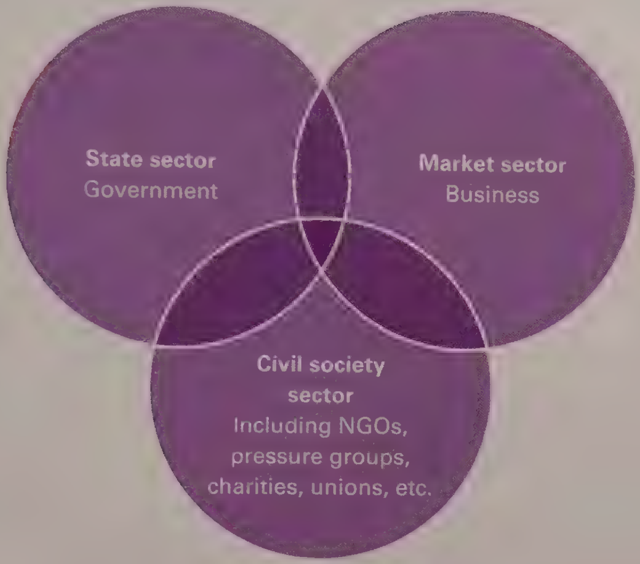
Have you recently donated money, time, or other resources to an organization? If you have, the likelihood is that you have interacted with a civil society organization. To some readers, though, the notion of civil society might be unfamiliar. Previous to a resurgence of interest in civil society in the 1990s, social and political theorists tended to model a two-sector world, comprising the market or economic sector (business) and the state sector (government). Therefore, it was assumed that important issues such as social welfare and environmental protection would be looked after either through labour and product markets, state provision, or else, corporate philanthropy.

More recently, considerable attention has focused on the role of other types of organizations such as pressure groups, charities, non-government organizations (NGOs), local community groups, religious organizations, etc., in attending to these issues. There are a number of reasons to explain this renewed attention, including a failure of the state or the market to ensure effective provision of social welfare, scepticism among certain sectors of the public that the traditional two-sector institutions actively listened to and served their interests (see Beck 1992), and the (re)emergence of the 'commons paradigm' in terms of exactly how civil society facilitates collaboration in the 21st century (Haugh et al. 2017).

This has opened up space to consider a third type of institutional actor in society, namely what has become known as civil society. As such, civil society is often said to comprise a *third sector* after the market and the state. This is illustrated in **Figure 10.1**. As a third sector, civil society is usually regarded as a counterbalance to the state (and more recently also to business), guarding against the abuse of power and ensuring that the people's best interests are served (Reece 2001). These three sectors might relate to the broad understanding of people, planet, and profit—or social, environmental, and economic sustainability—that guides much of today's current thinking around ethical business best practice (Elkington 1997).

Focusing on civil society, it can be argued that the supposed key role of the third sector is to ensure a degree of social and political pluralism that provides for a more civilized society. More recently, as a response to globalization, it has become popular to talk of *global civil society*, as many of the issues dealt with in this context are indeed transcending the scope of just national communities, as we will explore later in this chapter (e.g. Dryzek 2012). Civil society is made concrete and meaningful for corporations through specific civil society organizations (CSOs). Only very rarely do corporations actually deal with individual citizens who are not their workers or customers. It is therefore CSOs, as the tangible manifestation of civil society, that we shall mainly be concerned with in this chapter. Given that there is considerable confusion, contradiction, and overlap in the definition of CSOs and related organizational types, such as NGOs, non-profit organizations, pressure groups, and the like (McIntosh and Thomas 2002; Yaziji and Doh 2009), we shall use 'CSO' as an umbrella term for the different types of organization that might be considered to be civil society actors. Essentially, we use the term 'CSO' to describe all

Figure 10.1 Civil society as the 'third sector'



of the voluntary, non-profit bodies outside of business and government that represent a particular group or cause which brings them into contact with corporations. There are any number of interests, causes, and goals that CSOs might be involved with, including environmental protection, animal rights, social welfare, urban regeneration, child protection, development, famine relief, and health promotion, all of which could easily pertain to business ethics in some way.

Civil society organization A type of organization that is neither a business nor a government institution, and which is involved in the promotion of societal interests, causes, and/or goals.

Many of the larger international CSOs are at least as well known as large multinational corporations: the Red Cross, Greenpeace, Friends of the Earth, WWF, Amnesty International, and Oxfam are just some of the most widely recognized CSOs. However, although many of us may be aware of little more than a handful of the major CSO actors, the number and scope of CSOs is actually quite staggering. Given such a heterogeneous collection of organizational types, getting accurate estimates of the number of CSOs in operation is extremely difficult, but the consensus among most experts is that the number is huge and growing (Yaziji and Doh 2009). In the US alone, there are now around 1.5 million non-profit organizations; India has something like 2 million, while even in the UK there are some 160,000 registered charities. Overall, estimations suggest that CSOs account for around 5% of national GDP (Salamon et al. 2007), with national employment accounted for by CSOs ranging from less than 1%, in countries such as Mexico and Poland, to more than 10% in the Netherlands, Canada, Belgium, and Ireland (Hall et al. 2005).

CSOs can range from local neighbourhood associations and religious groups to powerful national-level lobbying organizations, and globally, there has also been an explosion of international CSOs working across borders on issues as diverse as climate protection, international development, and human rights (Turner 2010). Not only do they demonstrate

PRACTITIONER SPOTLIGHT 10 Building partnerships for sustainability

Reconciling market, civil, and state sector interests can be tough. But how exactly do people build such alliances in their day-to-day roles? We spoke to Anne Euler, Sustainability Director at GSMA, a global organization that represents the interests of mobile operators, about what are the key skills needed to build cross-sector sustainability collaborations.

Can you tell us a little bit about where you work? The GSMA represents the interests of mobile operators worldwide, uniting nearly 800 operators with more than 300 companies in the broader mobile ecosystem, including handset and device makers, software companies, equipment providers and internet companies, as well as organizations in adjacent industry sectors. As the GSMA Sustainability Director, I work with our member companies to integrate sustainability and the Sustainable Development Goals (SDGs) into core business.

How do you balance sustainability interests across these different partnerships? Ethical and sustainability issues are always changing in our very dynamic industry, so it is key to try and anticipate what's next. As a member organization, we have to be responsive to our members' needs and challenges and so I ensure that I have plenty of conversations with many different stakeholders. An output of such discussions is the annual Mobile Industry Impact Report that assesses our industry's progress towards the SDGS and our shared vision: Connecting everyone and everything to a #betterfuture.

What do you enjoy most about your job? Successfully building these alliances is very rewarding. I believe that the key to solving sustainability challenges lies in partnerships and working together. For instance, we are currently working with Sida (the Swedish International Development Cooperation Agency), Yale University, the United Nations Foundation United Nations Development Programme, and many others to increase the social impact of mobile technologies and transform lives across the globe. We focus on encouraging mobile operators to take a leadership role to promote the positive impact of mobile in societies, using technology to build more digitally inclusive societies. Also, every day is different, which is great. I am lucky to work with many different companies and other stakeholders on a range of different sustainability topics.

What has been your career path to date? Have you worked in other sustainability roles?

After a BA degree in Business and Politics, I completed an MA in Corporate Social Responsibility and then spent over ten years in sustainability consulting. As part of this role, I worked for small firms, as well as larger organizations, across many different industries and geographies—no two projects are the same. This gave me a great foundation in understanding a great variety of sustainability issues and approaches. I joined the GSMA in 2016 and I am now enjoying immersing myself into a particular industry in depth.

What is your one career tip for getting into a sustainability role? Be an expert in your chosen specialism—but also make sure that you speak the language of the non-experts. Working with others who are passionate about sustainability is exciting, but often you can influence real change if you can spark interest and understanding in people who never gave these issues another thought before.

If you could change one big world issue, what would it be? I would aim to reduce inequalities (as per SDG 10) across the world. It is one of the SDGs that is moving in the wrong direction as inequalities are actually getting worse across the globe. If we could reduce inequalities within and among countries, we would have come a very long way.

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Visit the online resources for more Practitioner Spotlight interviews.

Figure 10.2 Diversity in CSO characteristics

Source: Adapted from McIntosh and Thomas (2002: 31) significant heterogeneity in terms of the issues they focus on and their scope of operations, but CSOs also take different forms and structures and are involved in a varied mixture of activities. **Figure 10.2** illustrates this breadth of diversity in more detail.

In this chapter we shall examine the relationships that CSOs have with corporations, exploring the specific stake that they have and the ways in which they seek to influence corporate action. Whether through media campaigns, boycotts, or actively working together with corporations and governments, it is clear that now, perhaps more than ever, CSOs have a vital role to play in enhancing and ensuring ethical behaviour in business. Indeed, as we shall see as the chapter progresses, the global reach of many CSOs, coupled with their successes in working with businesses and governments, has meant that they are now often seen as an integral part of the global governance regime that shapes and regulates corporate practice. **Practitioner Spotlight 10**, which features Anne Euler from GSMA, provides a unique insight into the key skills needed to bring together partners across sectors and geographies in order to tackle some of society's biggest challenges.

CIVIL SOCIETY ORGANIZATIONS AS STAKEHOLDERS

It is clear that CSOs of one sort or another have long been involved in the activities of corporations. Whether it is receiving corporate donations, organizing employee resistance to labour practices, leading consumer boycotts of particular products, or more violent action, such as firebombing animal-testing laboratories, over the years, various CSOs have been very much involved in the business ethics field. In recent years, this has escalated enormously. Critical friends at best, adversaries at worst, civil society or the 'third sector' continues to play a key role in holding state and market actors to account (Bendell 2000). To many, the growth of CSOs is seen to be one of the 'most important societal developments in the past twenty years' (Yaziki and Doh 2009: 16).

In many respects, though, the stake held by CSOs is quite different from that held by other stakeholder groups. Employees, consumers, and shareholders, for example, all contribute something directly to the corporation in the form of labour, income, or capital. Likewise, as we shall see in Chapter 11, governments provide corporations with a licence to operate in a particular territory. CSOs, on the other hand, only very rarely contribute any resources directly to corporations. Hence, while consumers are able to retract their purchases from an oil company seeking to expand its operations in Antarctica, a CSO does not really have anything tangible to retract, since it does not directly contribute to the company in the first place. However, as an organization with a mission, for example to protect the environment on behalf of its members, the CSO certainly has a stake in the decision contemplated by the company.

Looking at it this way, the stake held by CSOs is largely one of *representing the interests of individual stakeholders*. By organizing together into a CSO, individual stakeholders, of whatever kind, can gain greater voice and influence than they have alone. If a local resident of Heathrow (UK) or Frankfurt (Germany) wanted to voice their concern about the development of a new runway, they would have little effect alone. However, by joining a local association, or even a national or international lobby group dedicated to preventing air and noise pollution from air traffic, they would be much more likely to have their views heard. Similarly, we can also see this illustrated by trade unions and other labour organizations: they represent the aggregate interests of individual employee stakeholders, both inside the workplace and on the political stage.

If we look at the oil company–CSO situation another way, though, a slightly different form of representation effected by CSOs becomes evident. Rather than its members, or the wider public, the CSO could be argued to be representing the environment itself. As a non-human entity, is the environment a stakeholder? This is an issue taken up by Barnett, Henriques, and Husted (2018), who use stakeholder theory (explored in Chapter 2) to distinguish between the *environment-as-stakeholder* (the environment has a legitimate 'stake' in business operations), *humans as a proxy for the environment* (humans act as representatives for the environment as a stakeholder), and *environment as a non-stakeholder* (the environment has no economic stake in the firm). It is the latter view, which builds upon the economic view that the environment is an 'externality' to manage, that has resulted in environmental issues traditionally being sidelined in businesses. A similar case can be made for animal welfare CSOs, such as the RSPCA (Royal Society for the Prevention of Cruelty to Animals) or PETA (People for the Ethical Treatment of Animals), who act in the interests of animals. Hence, another potential CSO role is *representing the interests of non-human stakeholders*, and this is an area receiving increased attention within business ethics research.

THINK THEORY

Think about the stakes of non-human stakeholders, such as animals or the environment, from the perspective of utilitarianism. Would a non-human stake be given a lower valuation in cost-benefit analysis than a human stake? Think through this problem in the context of animal testing or the building of a new road in an area of high biodiversity.

Visit the online resources for a suggested response.

Whichever of these two ways of conceptualizing the stakeholder role of CSOs is relevant, it is clear that the stake of CSOs is *indirect* and *representative*. CSOs are mainly delineated as stakeholders on the grounds that they represent some broader, if less tangible, constituency of civil society itself. Corporations tend not to deal with civil society as a group of innumerable individual citizens, but as a more discrete collection of representative CSOs. As such, CSOs form part of the **social licence to operate** for companies. By this, we mean that CSOs shape the extent to which a company 'is seen as having the ongoing approval and broad acceptance of society to conduct its activities' (Prno and Slocombe 2012: 346).

Social licence to operate The ongoing approval and acceptance of a company's activities by society, especially among local communities and civil society.

A clear distinction between CSOs can be harnessed by looking at exactly who the organizations are representing. CSOs tend to fall into two main types—*sectional groups* and *promotional groups* (see Smith 2015; Whawell 1998). While some of the key differences between these types are summarized in **Table 10.1**, it is important to bear in mind that CSOs are increasingly attempting to influence political decision-making processes, setting up joint ventures with

Table 10.1 Different types of CSOs

	Sectional groups	Promotional groups
Membership	Closed	Open
Represent	Specific section of society	Issues or causes
Aims	Self-interest	Social goals
Traditional status	Insider	Outsider
Main approach	Consultation	Argument
Pressure exerted through	Threat of withdrawal	Mass media publicity

companies as 'frenemies', and investing in collaborative research projects. These more fluid ways of operating see CSOs carving out new roles beyond these distinctions.

- **Sectional groups.** These include trade unions, professional associations, student bodies, neighbourhood groups, parent associations, etc. They are member-based and primarily seek to represent the interests of their members (i.e. a particular 'section' of society). The membership of sectional CSOs is only open to those fulfilling certain objective criteria that put them within the specific section to be represented, for example that they are part of a particular workplace, profession, or geographical region. The CSO will, above all else, pursue the self-interest of this membership.
- **Promotional groups.** These, in contrast, are focused on promoting specific causes or issues. Environmental groups, anti-smoking groups, and pro-life groups are all examples of promotional CSOs. These organizations represent those with a common ideology or shared attitudes about an issue. Membership is usually open to all, although only those with similar subjective viewpoints are effectively represented. These groups are less concerned with the self-interest of their members and more focused on seeking to achieve wider social aims.

More recently, the various successes of promotional CSOs, such as Greenpeace, Amnesty, WWF, Friends of the Earth, etc., in establishing themselves as credible and legitimate contributors to major social and environmental debates in society have given them much more of an 'insider' status than they were once afforded (Grant 2004). As opposed to the more traditional means by which CSOs have exerted pressure on companies—strikes, boycotts, demonstrations, media campaigns, etc.—we now see more consensual and collaborative approaches in business–CSO relationships (Crane and Seitanidi 2014).

Finally, it is important to mention that annual surveys that measure the public's trust in different institutions consistently report that NGOs enjoy considerably more trust than business or governments across the globe.[1] The favourability and trust apparently enjoyed by CSOs gives a clear indication that they demand attention from corporations with respect to business ethics. Survey evidence of this type—based on the opinions of relatively small samples of key informants—does not always provide conclusive evidence. As we see in **Ethics in Action 10.1**, even the most well-known CSOs have fallen from grace on trust-related issues, creating new questions for accountability and regulation of the sector. 2018 will go down in history as the year that many people lost faith in the charities sector, as it was disclosed that Oxfam workers had been embroiled in sexual exploitation, and Save the Children fired a number of staff on grounds of sexual harassment. Such cases prove that in focusing upon a values-based agenda rather than a financial agenda, CSOs have complex issues of their own to manage.

It is clear, then, that in many ways, CSOs have become just as much an accepted part of the debate over business ethics as other more conventional 'economic' or 'primary' stakeholders. Although their claim is often an indirect one, since it is a claim to represent individual stakeholders or even causes themselves, it would be hard to refute the argument that CSOs are legitimate claimants of stakeholder status. Indeed, questions of exactly *which* CSOs are legitimate stakeholders of a corporation, and *how* exactly they should go about claiming or exercising their stake, are certainly not straightforward. As we shall now see, such questions continue to underlie the emergence of CSOs as significant stakeholders in the corporation.

ETHICAL ISSUES AND CSOS

CSOs are not immune from ethical problems. Those working in civil society appear to observe similar types of misconduct, and at similar intensities, to those in business and government. But beyond these normal ethical problems, what are the specific problems in CSO relationships with business? While a number of issues arise from the somewhat less tangible stakes held by CSOs, chief among these are the decisions by corporations about which CSOs might be recognized as worthy of attention, the tactics used by CSOs to gain attention, and the degree to which CSOs are representative of, and accountable to, their intended beneficiaries.

RECOGNIZING CSO STAKES

If we take any given corporation—say, BP—it is fairly straightforward to objectively determine who its consumers, suppliers, employees, shareholders, and competitors are. Once we acknowledge that inclusion within any of these groups confers some kind of stake in the company, it is a short step to identifying BP's main stakeholders. With civil society stakeholders, however, this question is considerably more muddied. With BP's diverse interests in the energy sector, it is possible to think of hundreds, probably even thousands, of CSOs that might potentially claim a stake in the company's activities. From Azerbaijan farmers to UK transport organizations, Saharan desert communities, or fishing community groups in the US, BP has been involved in debates about its operations with an extensive array of CSOs across the globe. But how does a company such as BP determine which of these groups are legitimate stakeholders and which are not? And who is to determine legitimacy here? Just because, hypothetically speaking, BP may decide that a radical Inuit land rights group has no legitimate cause to pursue regarding the company's drilling operations in Alaska, does this necessarily mean that it is not a stakeholder?

These are taxing problems to resolve, but they go to the heart of what it means to be a stakeholder. If we look back to Chapter 5, when we discussed how corporations might manage their stakeholders, we looked at the pros and cons of assessing which stakeholders were worthy of attention through an *instrumental* approach. Here, the relative salience of stakeholders is assessed according to, for example, their power, influence, and urgency (Mitchell et al. 1997). Yet, the definition of 'who our stakeholders are' is not simply a matter of objective observation. Rather, this decision is influenced by the *subjective interpretations* of managers and their value judgements of what constitutes a legitimate claim (Fineman and Clarke 1996). This issue is particularly pronounced in the case of promotional CSOs, since they cannot usually call on

Ethics in Action 10.1 How to help the public trust NGOs again

Allegations of misconduct and unethical behaviour by Oxfam staff during its response to a humanitarian crisis in Haiti in 2011, and other behaviour by some working in the humanitarian aid sector, have raised serious concerns about public trust and accountability in charities and triggered a statutory inquiry into Oxfam.

According to many commentators, the Oxfam scandal will have a lasting impact on public perceptions of the organization's trustworthiness. Some segments of the media have portrayed the humanitarian NGO sector as something of a 'Wild West', where predators can abuse freely with no check on their activities.

The gravity of the scandal means that something must be done to repair the lost trust. The most popular type of solution—one advocated in such times—involves some type of increased oversight and tighter regulation of NGOs. But we must be careful in jumping to conclusions. Not only are there already a large number of oversight and regulatory mechanisms in existence, but the addition of more will shift resources away from the work that the government and the public value NGOs for to meet new bureaucratic requirements.

This might be unnecessary if, as we suggest, NGOs could alternatively regain trust by working to re-establish the social message that the public and government identify with NGOs in the first place.

Existing NGO regulations

Plentiful evidence does exist of the prevalence of sexual exploitation and abuse in the sector, stretching back to Save the Children's report on offences in West Africa in 2002. But it is important to correct the misconception that regulations do not exist at the international level. On the contrary, serious work has been devoted towards developing freely accessible guidelines and practical measures to counter sexual exploitation and abuse in humanitarian contexts.

These include the Core Humanitarian Standard, Interaction, Sphere Companion Standards on Child Protection in Humanitarian Action, and an Inter-Agency Standing Committee Task Team. Certification is available to organizations deemed to have appropriate safeguarding measures from Keeping Children Safe, in addition to the background (DBS) check that UK employees working with vulnerable people undergo. Report the Abuse (despite folding in August 2017 for lack of funding) also has extensive policy and practical recommendations for aid workers and organizations.

Given that these regulations have been available for a long time, it doesn't make good sense for NGOs to create more of them in an effort to regain the trust of the public. The reason why public trust has declined in NGOs is not necessarily because of 'lack of regulations'. It goes deeper than that.

It is understandable that governments want to be seen to be doing something in an attempt to regain trust. But there is a need for caution about unveiling new initiatives without considering all options. Additional regulations and oversight are a costly means to regain trust, and draw resources away from programme delivery. But, luckily, they are not the only means through which trust in NGOs can be rebuilt.

Rebuilding trust

It may seem intuitive that if an NGO has more oversight mechanisms, more people will trust it. Such oversight, after all, provides more information about their operations, from which judgements about trustworthiness can be made. Although this model, what we call a rational model of trust, is certainly part of the story, it is far from the only reason NGOs are trusted, as we have recently shown. This is because NGOs also benefit from social trust, which is generated by feelings of common identity and working towards a common cause. Put simply, where social trust exists, the public will trust NGOs without having what might otherwise be thought of as 'sufficient' information. Social links act as a trust-filler for the absent information. This means that NGOs can better weather brief storms of broken promises so long as they re-establish with the public the core social message that generates this identification in the first place.

The costs

NGOs and the public alike should not overlook this advantage when rallying from these recent scandals. Research suggests that a primary reason why NGOs join self-regulation mechanisms is to send a signal to donors that they are credible recipients of funding. But senior staff report concerns that bureaucratic accountability procedures can turn into a tick-box exercise that aims to provide a paper audit trail rather than transform relationships on the ground. What is more, they argue that an 'industry of standard-setting' has mushroomed in recent years. NGOs struggle to comply with reporting requirements from donors and voluntary self-regulation mechanisms, often leading to the duplication of work as the same information is recycled in different formats. NGOs find themselves burdened by increasing bureaucracy and cannot devote as many resources to the programmes that the public supports them for. Regulation adds operational costs that might ultimately be inefficient to the delivery of services, or even completely unnecessary.

Regulation based on rational trust has a place, but it is not the panacea for all ills. Organizations that have conventionally benefited from a privileged position of trust in society should ensure that they reflect on all possible sources of trust when considering the right solution to regain their perception of trustworthiness.

SOURCE

Vincent Charles Keating, Angela Crack, and Erla Thrandardottir. 2018. How to help the public trust NGOs again *The Conversation*, 3 April: https://theconversation.com/how-to-help-the-public-trust-ngos-again-93625.

QUESTION

Corporations are often held to account by CSOs, yet the Oxfam case creates timely questions around CSO accountability. To what extent is regulation the best way to rebuild trust in the civil sector?

Visit the online resources for web links to useful sources of further information.

any specific constituency as the source of their inherent rights to claim stakeholder status. Of course, many of these groups tend to 'self-declare' themselves as stakeholders in a particular issue (Wheeler, Fabig, and Boele 2002). This they accomplish by issuing statements, launching campaigns, or initiating some kind of action towards the corporation. For example, in recent years, PETA, Animal Justice Canada, and other animal rights organizations have issued boycotts against outerwear apparel company, Canada Goose. Citing inhumane practices within the Canada Goose supply chain, these CSOs self-declared as stakeholders to challenge the company over claims it was using false advertising to sell its fashionable winter jackets and deceive consumers over the use of coyote fur. In turn, Canada Goose took out an injunction to prevent demonstrations taking place outside its stores. Not only was this injunction overturned, but the stakes became ever more tangible in 2017, when PETA bought shares in newly floated Canada Goose, in order to get access to shareholder meetings,[2] a theme we explored in Chapter 6.

Canada Goose's suppression of dissenting voices via injunction proves that self-declaring does not necessarily lead to *stakeholder recognition*. Firms may ignore particular CSOs that they deem to be illegitimate or lacking the power to affect their business (Mitchell et al. 1997) as well as those perceived as too difficult to engage with (Wheeler, Fabig, and Boele 2002). Extractive companies, for example, often face criticism for failing to engage sufficiently with relevant local community organizations and other CSOs (Hilson 2012). This, then, raises the question of which CSOs corporations should recognize as legitimate stakeholders.

On the one side, there is certainly a case for arguing that companies cannot be expected to listen to and engage with every organization that decides to take issue with their policies. However, even though many CSOs and their demands may seem peripheral, illegitimate, or just simply unrelated to the corporate sphere of activity, this does not mean they can merely be ignored. As soon as a CSO starts to direct its attentions towards a corporation, the stakes begin to rise, and the potential impact on the corporation and its reputation becomes more hazardous. While ignoring ostensibly 'irrelevant' CSOs and hoping they will go away may be a typical corporate response to such 'irritants', it may have detrimental long-term consequences. Zadek (2001: 163), therefore, concludes that 'it is simply not really the company's choice who is and is not a stakeholder'. Clearly, the boundaries defining which CSOs can reasonably be defined as stakeholders are permeable and evolving, rather than concrete and fixed.

Certainly, though, managers have to make important decisions about how to best respond to CSO demands for inclusion, and where to draw the boundaries of their responsibilities to such groups (Zadek 2001). After all, there is usually only a limited allocation of time and resources available for managing relations with CSOs. Firms are therefore more likely to recognize and respond to CSOs that are known, trusted, and not too critical. Typically, they will distinguish between campaigners who are regarded as 'reasonable' and those deemed 'unreasonable', and between those who are thought to have 'sound' or supposedly 'suspect' intentions in raising an issue (Fineman and Clarke 1996). As Vilchez, Darnall, and Correa (2017) find, stakeholders, including CSOs, not only influence the decision by companies to *adopt* environmental practices, but also the internal managerial decisions about the *design* of these practices. Such research offers insight into the far-reaching influence of CSOs, demonstrating how CSO thinking is increasingly permeating traditional organization boundaries.

Normative stakeholder theory is not at its most helpful in determining specific boundaries of responsibility to civil society groups (Banerjee 2000). Although it may help us to identify that most affected groups have *some* claim on the firm, the nature of this claim is difficult to determine very precisely. Ultimately, there would seem a reasonable case to be made for at least listening to all those who feel they have a stake in the firm—even the critics—as it can raise awareness of potential problems, help to define priorities, and aid in setting out more informed visions of the future. In a digital context, social media platforms help to harbour such dissenting, as well as consenting voices, leading to such forums being conceptualized as important 'arenas for citizenship' (Whelan, Grant, and Moon 2013). In addition, the moral legitimacy of CSOs is probably best evaluated in terms of *how* they go about engaging with corporations—i.e. whether they adopt ethical procedures—rather than simply in terms of the legitimacy of the cause that they are representing (Baur and Palazzo 2011).

Of course, simply talking to CSOs is not always going to provide a sufficient level of involvement, but it represents a good place to start. Hart and Sharma (2004: 7) go further, to suggest that corporations should 'systematically identify, explore, and integrate the views of stakeholders "on the fringe"—the poor, weak, isolated, non-legitimate, and even non-human—for the express purpose of managing disruptive change and building imagination about future competitive business models'. While this type of strategic reorientation would pose quite a challenge for most corporations, it certainly suggests that there appear to be both normative and instrumental arguments to support an acknowledgement of at least a limited stake in the company for such fringe groups. **Ethical Dilemma 10** gives you the opportunity to think about and apply some of these ideas in a specific situation.

CSO TACTICS

Obviously CSOs are not passive actors in the process through which corporations decide whether they are a legitimate stakeholder in a situation or issue. CSOs are frequently very active in promoting their causes and in seeking corporate recognition, engagement, and response. However, some of the tactics used by CSOs to do this can be challenged on ethical grounds (Whawell 1998). Is it acceptable, for example, for animal rights activists to break into animal-testing labs to release animals, or even to threaten the staff of testing companies? Is it possible to defend the occupation of oil platforms, the vandalism of fast-food restaurants, or the deliberate destruction of GM crops?

There is, in fact, a whole range of tactics that CSOs might call on in seeking to achieve their aims. There are *indirect* forms of action, such as provision of data, research reports, and policy briefings, as well as more *direct* forms of action, namely violent direct action and non-violent direct action.

Indirect action

At the most basic level, indirect action will involve research and communication about the issues of relevance to the organization. For promotional groups in particular, the need to compete for public attention and approval often requires that they first establish a sound basis of research in order to develop credible arguments. Sometimes, though, the need to raise interest and convince a sceptical or apathetic public can lead CSOs into potential misrepresentation and overclaiming on the basis of their evidence. One area where CSOs have typically been open to ethical criticism is, therefore, in relation to the ***provision of misleading information*** (Whawell 1998). CSOs that warn the public over genetically modified organisms (GMO) have, for example, been found to exaggerate the truth in order to sensationalize their arguments and mobilize public scepticism (Gruissem 2015).

Overall, although there is growing attention to CSO duties to be honest and truthful in their communications, the provision of misleading information does not seem to be as much of an ethical problem for CSOs as it does for corporations (see **Chapter 8**). As we have already seen, many CSOs have been extremely successful in establishing themselves as credible and authoritative institutions, and as a whole are more trusted sources of information than corporations. More marginal CSOs involved in anti-business communication, as well as other clearly partisan civil society actors, may not of course enjoy the same degree of overall trust from the public. However, their specific slant is usually reasonably well understood, with the result that their information is often seen more as subjective interpretation than objective fact.

Violent direct action

Violent direct action is usually illegal, although as Smith (2015) notes, it frequently generates a high level of publicity and is useful for raising awareness quickly. For example, the often violent campaign against animal cruelty at research facility Huntingdon Life Sciences led by SHAC (Stop Huntingdon Animal Cruelty) resulted in extensive media publicity and a series of damaging setbacks for the company, its suppliers, customers, and investors. Nonetheless, a string of arrests involving SHAC's leadership led to the end of the campaign in 2014 (Peachey 2014). More recently, protests have moved into the digital sphere, with 'virtual vigilantes' such as the hactivist group 'Anonymous' issuing distributed denial-of-service (DDoS) cyberattacks on companies, governments, and religious institutions. Although flooding the bandwidth of a web

ETHICAL DILEMMA 10 Where's the beef?

As the public affairs manager of U-Buy, the country's leading supermarket chain, things have been fairly busy this year. Still, having successfully dealt with the media response to the company's plans to close a number of unprofitable rural branches, you feel that the latest incident should not be causing you quite as much trouble as it is.

It all started when you received an email from Gay Men for Equality (GAME), an activist group in the US. Although you had never even heard of GAME before, the group wrote to you asking about your company's position on BigBeef Corporation, a large US food company that supplies much of your processed meat products. Thinking it a strange request, but having no idea of any problems that GAME might be concerned about, you replied by saying simply that U-Buy had always enjoyed a good commercial relationship with BigBeef.

Thinking that this would be the last you would hear of GAME, you were surprised to receive a much more stridently worded reply the next day that asked why U-Buy was supporting a company that had recently been convicted after a string of accusations about discrimination against gay employees, and whose chief executive, Buck Leghorn, was an outspoken critic of the gay and lesbian equality movement.

You decided to do some research on the accusations, and it appeared that GAME was pretty accurate in its claims about BigBeef and Leghorn. And from the press coverage in the US, it looked like BigBeef was not going to back down on this matter. GAME had been campaigning for some time against BigBeef but had yet to get any response from the company.

Although you could have done without the association between discrimination and U-Buy, this was BigBeef's business, and you felt it did not have much to do with your company. In the meantime, though, you had started receiving several emails a day from GAME demanding a response, so you decided to write to them again. This time you reiterated that U-Buy had always enjoyed a good working relationship with BigBeef, but added that U-Buy deplored discrimination of any kind and itself actively complied with all relevant legislation.

GAME refused to be pacified by your response and started intensifying its demands, urging U-Buy to call for a complete apology and change of policy at BigBeef or to cease trading with them. When you got this email from GAME you almost laughed, thinking what a crazy suggestion this seemed to be. What did this have to do with you and U-Buy? It was not your fault that BigBeef had been prosecuted. And it certainly was not up to you what their chief executive, Buck Leghorn, decided to pronounce upon in the media.

Still, you thought you would mention the problem to the head of purchasing and let her know what was happening. When you did so, she made it extremely clear that there was no way she was willing to risk the good relations that U-Buy had with BigBeef. The company was one of U-Buy's most important suppliers, and the company had a lot of influence in the global food industry. 'This will soon blow over,' she told you, 'just lie low and do not say anything that will get us into trouble.'

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Despite the head of purchasing's forecast, GAME's campaign seemed to be gaining ground, and the national press had got hold of the story. It looked like GAME had turned its attention to U-Buy to try and leverage its position as the country's top retailer to force through changes at BigBeef. And to your dismay, it now appeared that a local chapter of GAME had even been set up specifically to target U-Buy—it was said to be planning a demonstration outside your flagship store in the capital. Things were certainly escalating to a level that needed dealing with. You did not want to risk threatening U-Buy's good relations with your powerful American supplier, but at the same time you did not want to be associated with discrimination, however indirectly. You could just see the placards now: 'U-Buy supports gay harassment' or some such thing. How come this minor problem was causing you such a major headache?

QUESTIONS

1. Which are the legitimate stakeholders in this situation? Give reasons why you think they are legitimate and establish some kind of priority ranking.
2. How would you proceed in this situation?
3. How would you try to prevent similar problems from occurring in the future?

server with a significant level of traffic may not seem as violent as harassment and intimidation of employees, incidences of cybercrime can cause significant levels of personal distress and economic loss. On a larger scale, it is estimated that cybercrime costs companies around $12 million each year, with this figure set to rise by 20% year on year.[3]

Despite their intentions to support a cause, it is difficult to condone the more violent protests by CSOs—although the destruction of property and violence towards people would seem to be on somewhat different moral planes. For one thing, such actions can hardly be deemed 'civil', even though civil behaviour is regarded as a prerequisite for the moral legitimacy of CSOs (Baur and Palazzo 2011). Perhaps in the interests of attempting to create a more civil society in the long run (for example, one where animals are not used for tests of cosmetic ingredients), we could begin to see a defence of violent action on consequentialist grounds. However, the perceived illegitimacy of such tactics by the public, government, and business tends to make them largely unsuccessful at gaining CSO members access to decision-makers and the decision-making process—which is often a major goal of such campaigns. Overall, violent direct action remains an important, if highly controversial, tactic for CSOs. In a liberal, pluralistic society, though, such means have to be severely questioned.

THINK THEORY

Think about violent direct action by CSOs in terms of consequentialism and principle-based theories. Which is most important for the legitimacy of CSOs—that they achieve civil consequences or that they adopt civil procedures in doing so?

Visit the online resources for a suggested response.

Non-violent direct action

Non-violent direct action is a far more common approach for CSOs to use against corporations. With the rise of the internet and social media, it has become far easier for CSOs to organize campaigns and other forms of activism aimed at corporations. **Figure 10.3** provides an illustration of the different forms of non-violent direct action, including those both online and on the ground. Sometimes these activities may cross the line into illegality, such as when climate change activists trespass on private land to protest about oil exploration or pipeline projects. For example, in 2013 armed Russian authorities arrested 30 Greenpeace activists and seized their ship after they attempted to occupy a Russian oil rig in the Arctic.

The online environment also provides a new battleground for civil society activism in the form of anti-corporate social media campaigns. Greenpeace has probably been the most effective exponent of this type of activism in recent years. One of its biggest social media successes

Figure 10.3 Different forms of non-violent direct action

was its 2010 campaign that forced the giant food company Nestlé to implement sustainable sourcing of palm oil. The NGO released a parody of a Kit Kat advertisement on YouTube that went viral, garnering nearly 1.5 million views and prompting over 200,000 emails, hundreds of phone calls, and countless Facebook comments. What is notable about how Greenpeace has become a leader among CSOs in leveraging the power of social media is that it has been adept at getting people to go beyond simple 'clicktivism'. While its campaigns may start by getting people to simply watch, like, and share content, it also designs its campaigns to provide follow-up education about the issues and to encourage deeper participation through email campaigns, off-line protests, and even user-generated content creation.

Of course, Greenpeace is not alone in taking to social media to confront companies. CSOs are becoming increasingly buoyed by digital technology in creating 'social movements'; collective activities that involve restructuring and changing institutional structures through mobilizing resources across geographies to encourage widespread participation around collective group identities (Benford and Snow 2000; Miranda, Young, and Yetgin 2016). Indeed, these benefits are offering emancipatory potential, as noted by 'fourth-wave' feminism (see Chapter 12). Women are seen as more able to connect, share experiences, seek advice, and offer and receive emotional support (Grosser and McCarthy 2018). For instance, the UK-based 'No More Page 3' feminist social movement achieved success in raising awareness of gender objectification and eradicating a daily semi-nude photo of a woman from a tabloid newspaper, largely due to campaigning efforts through social media.[4]

In the main, non-violent direct action tends to remain quite legal and ethical. However, it is important to recognize that even non-violent actions may have violent consequences. We will not go into detail on all of the non-violent direct action tactics open to CSOs, but it seems worthwhile to focus a little more attention on boycotts, since they are such an important part of the CSO 'tool box'.

BOYCOTTS

Boycotts are probably the most commonly recognized, and most widely used, form of non-violent direct action. Research suggests that something like 30% of people claim to have boycotted, or are willing to boycott, a product for ethical reasons. As such, they represent an organized form of *ethical consumption*—a subject we first discussed in Chapter 8. However, boycotts are a very specific form of ethical consumption. That is, while ethical consumption is often an individual activity or choice that may involve decisions to purchase some products and not others, a boycott is a co-ordinated endeavour among a group of consumers to refrain from making specific purchases. Its goals may be to influence corporate policy directly, or to achieve other objectives through *collective action* (Smith 2015).

> **Boycott** A co-ordinated attempt to achieve certain objectives by urging individual consumers to refrain from making selected purchases in the marketplace due to perceived deficiencies in social, ethical, and/or environmental performance.

CSOs are usually the parties co-ordinating boycotts of corporations and products. Some CSOs, in fact, even come into existence simply to organize boycott activity, such as the *Boycott Divestment and Sanctions (BDS)* movement, a coalition of Palestinian organizations that boycott Israeli products and companies operating in Israel. CSO boycotts have targeted numerous companies over the years, with the *Ethical Consumer* website typically listing some 50–100 active boycott actions at any given time. **Table 10.2** describes some more well-known boycotts that have occurred over the years.

The question of *which companies should be targeted* (and the reasons why) is a critical ethical choice for CSOs. For a start, many campaigns focus on particularly visible or vulnerable corporate brands, even if they are not the worst offenders with respect to the issue concerned. For example, at the heart of the UK's 'Stop Funding Hate' campaign is a mission to stop tabloid newspapers such as the *Daily Mail* and the *Sun* from demonizing minority groups and using 'fear and division to sell more papers'.[5] As well as lobbying the newspapers themselves, the campaign also focuses its efforts on social media to persuade advertisers, such as supermarkets

Table 10.2 Some well-known boycotts

Target company	CSO organizer	Dates	Main issues	Outcomes
ExxonMobil (Esso)	Greenpeace, Friends of the Earth, People and Planet	2001–4	Anti-climate change position, including active lobbying against Kyoto global warming treaty; lack of investment in renewable energy	Raised awareness and brought (unsuccessful) shareholder resolutions to the AGM. ExxonMobil has since shifted to a more accommodating climate change position
PG Tips Tea	Captive Animals' Protection Society (CAPS)	2004	Use of performing chimpanzees in advertisements—claimed to reduce animals to ridicule, taking young chimps from their mothers, and potential physical punishment	Removed advertisements featuring the chimpanzees in 2004, having used the image for 45 years. Now uses animated animals
Body Shop	Naturewatch	2006	Sale of Body Shop to L'Oréal. Main issues involved L'Oréal's use of animal testing	A Naturewatch press release claimed that the Body Shop had lost millions in revenue in just one year due to the campaign. No change in policy at L'Oréal
BP	Public Citizen, Democracy for America	2012	Deepwater Horizon oil spill (see Ethics on Screen 5)	More than 700,000 people follow the Boycott BP Facebook page and protests occur at many BP petrol stations but little impact of boycott on the company since most stations are franchise owned
Chick-fil-A	Student Unions, gay rights organizations, and city mayors	2012	Anti-same-sex marriage position including funding of anti-gay organizations and public opposition to gay marriage by the company president	Several cities announce restrictions on Chick-fil-A restaurant expansion plans, and funding for anti-gay organizations phased out. However, counter campaign 'Chick-fil-A appreciation day' also a success and overall sales continued increasing
Facebook	#Faceblock campaigners	2018	Involvement in Cambridge Analytica scandal (user data sold to political consultancy and used to influence the 2016 US election), issues of data privacy, censorship, and democracy	'Delete Facebook' searches hit all-time high on Google; $45 million wiped off company valuation in March 2018; Commerzbank and Mozilla suspend ad campaigns; Facebook ends partnerships with data brokers

Sources: http://www.ethicalconsumer.org; http://www.caft.org.uk; http://www.greenpeace.org.uk; http://www.naturewatch.org; http://www.captiveanimals.org; http://facebookblackout.org

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and consumer goods brands, to pull their support of these titles. Some might question whether such targeting is fair or whether only the worst or most direct offenders should be attacked in this way. Debate about the ethics of targeting specific firms also arises when the values and causes that CSOs promote are themselves controversial, as organizations operating in the politicaly sensitive Middle East have often discovered at their peril.

THINK THEORY

Think about the arguments for and against the Facebook 'Faceblock' campaign. Which ethical theories would you say these arguments primarily rely on?

Visit the online resources for a suggested response.

Of course, for some CSOs high-profile controversy is exactly the purpose of calling a boycott—they want to raise awareness of the issues involved rather than necessarily expecting the company to change its behaviour. Indeed, CSOs might actually have four different purposes for boycotts (Friedman 1999):

- **Instrumental boycotts** aim to force the target to change a specific policy. Goals may be very clear, such as the repudiation of the challenged policy, the introduction of better conditions, etc.
- **Catalytic boycotts** seek to raise awareness about the company's actions and policies. The boycott itself is more of a means to generate publicity, either for the CSO or for a broader campaign of action against the company.
- **Expressive boycotts** are more general forms of protest that effectively just communicate a general displeasure about the target company. This form tends to be characterized by more vague goals, since their focus is more on the CSO and consumers registering their disapproval.
- **Punitive boycotts** seek to punish the target company for its actions. Therefore, rather than communicating displeasure, the boycotters actively seek to cause the firm harm, usually by aiming for significant erosions of sales.

THINK THEORY

Investigate the boycotts in Table 10.2 and categorize them in terms of instrumental, catalytic, expressive, and punitive boycotts. What explains the difference in objectives for CSOs?

Visit the online resources for a suggested response.

Additionally, an increasingly popular alternative to punishing companies for unfavourable activity is to reward businesses for favourable behaviour (Neilson 2010). The idea of the 'buycott' is not new, but we are seeing digital technology enhance the possibility for patronage in a number of ways. For instance, US-based NGO 'Carrotmob' has successfully harnessed social media to drive organized consumer spending towards community businesses in need of support.[6] Additionally, an online platform and smartphone application, 'buycott', now offers users the possibility to 'rid their baskets of unethical products' through using a barcode and QR scanner to suggest un/ethical produce in line with consumers' particular values and interests.[7]

Regardless of the purpose of a boycott (or buycott), it is often the extent and intensity of consumer participation that determines whether such goals are met. Clearly, a number of factors can affect whether consumers join and maintain boycotts, including the degree of effort involved in switching to an alternative, the appeal of the boycotted product to the consumer, social pressure, and the likelihood of success (Sen, Gurhan-Canli, and Morwitz 2001). In practice, though, many more boycotts are called than are successful, and many never capture mainstream attention. This of course starts to raise the question of which constituencies, exactly, are CSOs supposed to be representing—and perhaps more importantly, in what way are they answerable to those whose interests they are supposed to be advancing? These are essentially questions of CSO accountability, the last of our main ethical issues confronting business relations with CSOs.

CSO ACCOUNTABILITY

In recent years the issue of **CSO accountability** has been raised with increasing regularity (Baur and Schmitz 2012; O'Dwyer, Boomsma, and Parker 2015). This is perhaps not surprising when one considers that they have often been the parties most vociferously questioning the accountability of corporations. We might reasonably expect critics of corporate accountability to 'have their own house in order' first (Hilhorst 2002). Yet as recent scandals, such as the 2018 Oxfam case we discussed previously, have proven, CSOs are being placed in the spotlight for morally questionable, if legal, behaviour. This calls into question not just the 'moral capital' of the individual organization, but arguably the sector more widely (Crack 2013).

CSO accountability The principles, processes, and mechanisms through which stakeholders hold CSOs responsible for their performance.

Indeed, it is interesting to note that questions about CSO accountability have largely mirrored the same questions that have been raised in relation to corporations. For example, who exactly is an organization such as Greenpeace supposed to be serving? Are the interests of its managers aligned with those of its principal constituents? To what extent and to whom are Greenpeace responsible for the consequences of their actions? We have asked almost exactly the same questions in discussing issues of corporate responsibility and accountability in Chapter 2, and issues of ownership, control, and governance in Chapter 6. This suggests that we can conceptualize CSO managers as 'agents' for a broader collective of civil society 'principals', in the same way as we do for corporate managers and shareholders (see Doh and Teegen 2002). Likewise, we can model CSOs as representative of different stakeholder interests just as we can with corporations (e.g. Hilhorst 2002). Specifically, CSO stakeholders might be said to include the parties captured in Figure 10.4.

It is important to bear in mind that CSOs, to some extent, represent some notion of *civil society itself*—a largely indefinable stakeholder, but one that is nonetheless central to the notion of the third sector. A growing number of organizations very similar to CSOs have been initiated since the 1990s, with *business* itself as a main stakeholder; examples being the World Business Council for Sustainable Development (WBCSD), the Global Business Coalition on HIV/AIDS (GBC), and the Global Climate Coalition (GCC). In contrast to real grassroots organizations, these are sometimes dubbed 'astroturf NGOs' (Gray, Bebbington, and Collinson 2006), as

Figure 10.4 CSO stakeholder groups

they pick up typical issues of CSOs, but address them from the rather narrow angle of business interests.

Given such a range of stakeholders, issues of accountability and responsibility in CSOs are clearly quite complex. It is the accountability of CSOs to their *supposed beneficiaries* that tends to raise the most debate. A number of problems are evident here, including:

- CSOs in developed countries purporting to represent the interests of those in developing countries sometimes impose their own agendas on local people without adequately understanding their situations and needs.
- The involvement of beneficiaries in agenda setting, defining priorities, and making strategic decisions is often limited, resulting in information asymmetries.
- The need for financial support and other resources can focus CSOs' interests on donors' priorities ('upward accountability') rather than those of their intended beneficiaries ('downward accountability').
- CSO performance measures are often devised without input from beneficiaries and are frequently not communicated to them in a meaningful way.
- Beneficiaries typically lack effective feedback mechanisms to voice approval or disapproval of CSO performance, or to seek redress when CSO interventions go wrong.

In some ways, it would appear that many CSOs have been equally inattentive to certain issues of accountability and democracy as many corporations have. Given their largely positive impact on society, as well as their values-based stance, it could be argued that perhaps the issue of accountability is less crucial in respect of CSOs. Indeed, *formal accountability* (in the form of public accounts and performance metrics) might be said to be less important for CSOs than a more *informal accountability* based on the more complex and closer ties between CSOs and their stakeholders (Gray, Bebbington, and Collinson 2006). However, given the growing importance of their role in society in general, as well as their involvement in business specifically, the question of CSO accountability is gaining further traction among academics, practitioners, and policy makers. As Hielscher et al. (2017) argue, improving NGO accountability for the stakeholder groups identified in **Figure 10.4** requires more focused attention on underlying governance problems, collective self-regulation, and third-party enforcement.

Some of the largest international CSOs, including Oxfam, Amnesty International, and Greenpeace, have responded to these challenges with an 'Accountability Charter' intended to serve as an international code of conduct (Russell 2006). The charter, now operated under the banner of 'Accountable Now', has 27 member organizations and is committed to improving accountability

Figure 10.5 The Global Standard for CSO Accountability

Source: https://accountablenow.org/[illegible]

standards, enhancing public trust in CSOs, and building a global community of practice to benefit knowledge sharing.[5] Since 2015, Accountable Now has defined 12 key principles that form part of the 'Global Standard for CSO Accountability' (see Figure 10.5) which members are required to report on annually in order to ensure commitments to transparency and accountability are maintained. These reports are then evaluated by an independent review panel to ensure that members adhere to their commitments.

10

THINK THEORY

Think about the relevance of stakeholder theory for CSOs compared with corporations. In what aspects is it more or less relevant or applicable for either category of organization?

Visit the online resources for a suggested response.

GLOBALIZATION AND CIVIL SOCIETY ORGANIZATIONS

Globalization has brought two significant changes to CSOs that are relevant for our understanding of business ethics. First, globalization has brought multinationals into confrontation with an extended community of CSOs, including a whole new set of local CSOs in other countries that they had no interaction with before. Second, we have also seen CSOs themselves increasingly globalize in terms of scale and/or scope. CSOs have often been extremely effective at galvanizing a transnational community of constituents to support their campaigns aimed at corporations. Let us look at each of these issues in a little more detail.

ENGAGEMENT WITH OVERSEAS CSOS

For corporations acting solely within the domestic sphere, the notion of civil society tends to be quite naturally framed simply in terms of national or even regional constituencies. Just as an Italian corporation, such as the construction giant Salini Impregilo, might typically have been involved in dealing with Italian labour and environmental groups (such as Italia Nostra), so might an Indian corporation such as Tata Tea, the largest tea company in the subcontinent, typically have dealt with just Indian CSOs. However, the increasingly deterritorialized nature of business activity means that multinationals may be confronted by unfamiliar CSOs in overseas countries. For example, BP's involvement in extracting, refining, and transporting oil in hundreds of projects around the globe exposes the company to the attention of a huge variety of local environmental and community groups.

It should be noted here that in countries like India, the CSO population is huge, while in others, such as China, the local CSO population is more limited. Indeed, CSOs hardly existed in China prior to the mid-1990s. There are now some half a million registered CSOs and a further 1.5 million unregistered organizations, many of which are illegal under Chinese law, but are increasingly tolerated by the authorities (*The Economist* 2014c). Additionally, many developing and transitional economies tend to lack a strong and institutionalized civil society, with international CSOs often taking up the slack. On the one hand, a lack of local CSOs can be a plus for corporations, in that it means they can either engage with more-familiar international organizations, or even conduct their business relatively unhindered by CSO activism. On the other hand, the absence of an effective third sector can reinforce welfare and democracy deficits in countries where corporations would benefit from greater societal governance. Valente and Crane (2010) suggest that some companies have developed a 'support strategy' in developing countries that involves the active promotion of well-managed civil society organizations. In sum, it can be argued that local and international CSOs can be differentiated by their operations, size, scale, geographic reach, access to funds, budgets, and roles in development.[9]

10

THINK THEORY

Think about the idea that CSOs overseas are stakeholders in a business. How can companies effectively recognize the right CSOs have as their stakeholders in an overseas context?

Visit the online resources for a suggested response.

GLOBALIZATION OF CSOS

Just as corporations have become increasingly global in scope over the past few decades, so too has civil society. Now, rather than just engaging with multiple local civil societies, some corporations are also faced with something more akin to a *global civil society*. Talk of a global civil society to describe such developments first began to spread in the 1990s and has now become fairly commonplace in social and political debates (Dryzek 2012). Its most obvious manifestation is in giant international NGOs such as WWF, Greenpeace, and Friends of the Earth, as well as international union bodies such as the International Confederation of Free Trade Unions (ICFTU). However, many social movements and anti-corporate campaigns are also global in scope. Consider the Occupy movement, which, since 2011, has sought to highlight the problem of income inequality. The position of CSOs as global 'institutions', on a similar deterritorialized basis to corporations, potentially brings with it new roles and responsibilities. On the one hand, it may create the opportunity to address global business ethics issues on a wider scale than previously possible. WWF's water conservation partnership with Coca-Cola, for instance, focuses on 11 of the world's most critical freshwater rivers and improves Coke's own water efficiency.[10] On the other hand, smaller, more localized CSOs are often under-resourced and in an unequal position to Western multinationals. Looking at environmental CSOs in China, Li, Tang, and Lo (2018) find that the regulatory and political environments heavily shape and restrict CSO activity. Yet, Banerjee (2011) identifies the increasingly 'translocal' nature of CSOs in a global context, whereby 'local' CSOs band together. Globalization is not only affecting international CSOs, but it is also transforming the reach and impact of small, local players. In addition, the movement of both corporations and CSOs (but less so governments) to a global level means that CSOs might be expected to take on some of the responsibilities that were formerly held by government. As we have said a number of times, business ethics tends to begin where the law ends. And with a dearth of global laws, global CSOs have found themselves involved in (and at times have pushed themselves into) the process whereby global regulation of business is debated, decided, and implemented (Doh and Teegen 2002, 2003). As we shall discuss in more detail in the next section, this potentially has significant implications for our understanding of corporate citizenship (CC).

THINK THEORY

Think about the theory of ethical relativism in the context of global CSOs. Could there be a case for arguing that to be accountable to their local beneficiaries, CSOs have to adopt some level of relativism, or can they maintain a one-size-fits-all form of ethical absolutism?

Visit the online resources for a suggested response.

CORPORATE CITIZENSHIP AND CIVIL SOCIETY: CHARITY, COLLABORATION, ENTERPRISE, OR REGULATION?

So far in this chapter, we have mainly discussed corporate and civil society actors as though they were dedicated adversaries in a perpetual state of conflict. However, recognition by firms that 'good' citizenship might entail a positive response to civil society challenges has, for some time now, brought them into more constructive contact with civil actors. Traditionally, this has mainly centred on *charitable giving* and other philanthropic acts intended to benefit community groups and other civil actors. More recently, though, we have also witnessed an increasing incidence of more intensive *business–CSO collaboration*, seeking to provide more partnership-based solutions to social and environmental problems (Seitanidi and Crane 2014). At times, CSOs have even eschewed partnership with corporations and developed their own businesses, namely *social enterprises*. Finally, looking at the nature and purpose of CSO involvement in the business sector, CSOs might even go beyond collaborating with business to actually forming some kind of '*civil regulation*' of corporate action (Zadek 2001). In this section, we will look at the ways in which corporations and civil society have become more tightly interrelated, and consider the question of what role CSOs can play in making corporations more responsible and accountable within society.

CHARITY AND COMMUNITY INVOLVEMENT

The main starting point for a consideration of business involvement in civil society is, inevitably, charitable giving and other forms of corporate philanthropy and community involvement. While authors such as Friedman (1970) have criticized charitable giving for effectively 'stealing' from shareholders, corporations have long been involved in philanthropic behaviour towards local communities, charities, the arts, and various other aspects of civil society. The scale and form of corporate giving vary significantly between companies and regions. In general, US firms tend to exhibit the highest levels of corporate giving. European firms have tended to lag behind those from the US, but typically outstrip donations from Asian firms (Brammer and Pavelin 2005; Muller and Whiteman 2009). Based on the notion of 'giving something back', many large corporations have now set up separate units or corporate foundations to strategically manage philanthropic activities—or 'social investments', as they are often referred to—on a global scale (Kotler and Lee 2005). For instance, the foundation of the mobile phone company, Vodafone, co-ordinates more than 28 local national foundations, as well as a global Vodafone Group Foundation. Since 1991, it has invested more than $1 billion in social projects in the communities in which Vodafone operates, with a particular emphasis on mobile technology solutions to social problems.[11] Vodafone is part of a global coalition to use its data for social good, in conjunction with the industry body GSMA (see **Practitioner Spotlight 10**), further emphasizing the company's commitment to beneficial social relations.

Employees are also often involved in philanthropy schemes with CSOs, such as through **employee volunteering**. Although volunteering for charities has traditionally been part of a citizen's private civil engagement, companies have increasingly offered their employees the opportunity to volunteer on company time. By enabling employees to commit their time and efforts to social initiatives in this way, firms and their workers may be able to achieve a number of aims, including increasing employee morale and teamwork, enhancing the firm's reputation, and building 'social capital' within the community (Peloza and Hassay 2006; Muthuri, Matten, and Moon 2009; Rodell 2013).

Employee volunteering The giving of time or skills by company employees to a civil society organization during a planned activity endorsed, arranged, or funded by their employer.

Despite these benefits, 'passive' forms of company support for employee volunteering (such as unpaid leave and provision of access to company facilities) are far more common than 'active' forms (such as paid leave and formal integration with training and development programmes) (Basil et al. 2009). This suggests that, despite its prevalence, many firms have yet to deploy a strategic or proactive approach to employee involvement, but rather rely on employees to take the initiative. What's more, recent research has suggested that engaging in discretionary work obligations, such as volunteering, may carry personal consequences for employees in terms of emotion and work-family conflict (Deery et al. 2016). Contrary to popular opinion, employee volunteering may have questionable impacts on employee well-being.

More recently, attention has turned towards *strategic philanthropy* (Liket and Maas 2016) and *cause-related marketing* (Robinson, Irmak, and Jayachandran 2012; Vanhamme et al. 2012) as ways of aligning charitable giving with firm self-interest. Under such initiatives, firms select suitable recipients of funding, not so much according to need, but according to their potential for improving the firm's competitive context, enhancing its reputation, and other instrumental ends (Porter and Kramer 2006). Considering that among the largest donors of cash within US companies are Wal-Mart, Chevron, Goldman Sachs, and ExxonMobil, which have all been in the firing line for unethical and even illegal practices, such strategic forms of charitable giving seem to be thriving. Although this is a logical response to doubts about the business value of community involvement, it does suggest certain limitations to philanthropy as a means of satisfying broader civic roles and responsibilities. It may benefit communities and civil society, but it does not usually allow them much voice in shaping corporate action, potentially leading to exploitation rather than empowerment (Muthuri 2008). Essentially, according to our depiction of different modes of stakeholder engagement in Chapter 5, this is a form of *one-way support* from business to civil society. It is also, arguably, a reactionary rather than transformational approach to the role of business in society (Crane et al. 2014).

BUSINESS–CSO COLLABORATION

In addition to these one-way philanthropic gestures, closer and more interactive relations between civil society and corporations have also risen to prominence in recent years. This move towards business–CSO collaboration has led to enhanced dialogue between business and civil society actors and the formation of cross-sector and multi-sector partnerships (Clarke and Crane 2018). Multi-sector partnerships are broadly understood as collaborations across the three areas presented earlier, in Figure 10.1—market, civil, and state sectors—that are focused on finding a common approach to a complex issue (Rasche 2012). A number of examples involving multinational companies and CSOs, most specifically, are described in **Table 10.3**.

While reliable figures on the number of collaborations between CSOs and corporations are not readily available, there is general agreement that their incidence and scope have increased quite dramatically since the mid-1990s (Seitanidi and Crane 2014). There is also considerable evidence to suggest that the *degree of interaction* between commercial and civil organizations has intensified—from basic 'transactional' approaches to more 'integrative' relationships (Austin 2000). It is often suggested that CSOs are moving from being passive recipients of corporate philanthropy, or 'brand-for-hire' endorsers of existing company products, to more strategic roles in developing corporate policies and sharing resources and capabilities in order to contribute to joint value creation (Austin and Seitanidi 2012; Vilchez, Darnall, and Correa 2017).

Table 10.3 Some examples of business–CSO collaboration

Name of initiative	Country	Main CSOs involved	Main corporations involved	Launch	Aims and objectives
Marine Stewardship Council (MSC)	International	Originally developed by WWF-UK, now MSC is a CSO in itself	Nearly 40,000 retailers, suppliers, fishmongers, hotels, and restaurants globally	1997	Establishment of standards and independent certification for sustainable fishing
Ethical Trading Initiative (ETI)	UK/ International	NGOs incl. Oxfam and Save the Children & trade unions	80+ companies, incl. Burberry, Primark, Gap, H&M, Transport for London	1998	To define best practice in ethical trade and enable firms to implement labour standards in international supply chains
International Business & Poverty Reduction	Indonesia	Oxfam	Unilever	2004	Research programme to explore the nature of Unilever's Indonesia business and its impacts on people living in poverty
HSBC Climate Partnership	International	The Climate Group, Earthwatch Institute, Smithsonian Tropical Research Institute, WWF	HSBC	2007	To combat climate change through programmes in education, research, conservation, and engagement with business, government, and communities
Cocoa Life	US/ International	Care, The Fairtrade Foundation, Save the Children, VSO, Anti-Slavery	Kraft Foods	2012	To ensure a sustainable supply of cocoa through third-party verification for key brands Cadbury, Côte D'Or, and Milka
Accord on Building & Fire Safety in Bangladesh	Bangladesh/ International	Two global trade unions, eight Bangladeshi trade unions, and four NGOs	Almost 200 apparel brands, retailers, and importers from over 20 countries	2013	To build a safer Bangladeshi garment industry based on independent inspection programmes, funding for remediation, and worker empowerment
Global Business Coalition Against Human Trafficking (GBCAT)		Business for Social Responsibility	The Coca-Cola Company, Microsoft Corp. and Google	2017	To prevent and reduce modern slavery and support survivors, providing resources and guidance as well as support to small and medium-sized enterprises

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Brugmann and Prahalad (2007) demonstrate that business and CSOs may even go so far as to co-create new businesses together—an issue that we will explore in more depth in the following section on 'social enterprise'.

Given the history of boycotts, strikes, occupations, protests, and other conflicts, businesses and CSOs might seem at first to be rather strange, and somewhat uneasy, bedfellows. However, there are a number of reasons why they have sought to work more closely together, which can largely be explained in terms of the relative resources that each party depends on the other for (den Hond, de Bakker, and Doh 2015). For companies, these reasons include a commitment to solving social problems they cannot tackle alone, an interest in leveraging CSO trust and credibility, a need to head off negative publicity, and the potential for introducing new thinking and skills into the organization. For CSOs, the reasons include a need for better resources, improved access to markets and consumers, disenchantment with governments in helping them to achieve their objectives, and access to corporate supply chains. In many respects, such collaborations appear to be very welcome, and in general have been afforded a very positive response in the academic and business press (Laasonen, Fougère, and Kourula 2012). Clearly, this has strong resonance with a *discourse ethics* approach to resolving ethical problems (Scherer and Palazzo 2011). However, as we shall now explore, the value of this approach will depend on a number of other factors. **Ethics in Action 10.2** provides some examples of how partnerships across market and civil contexts create both positive, but also some negative, implications in the context of 'big data'.

Limitations of business–CSO collaboration

Despite their clear potential, business–CSO collaborations also bring a number of possible challenges. Foremost among these are potential power imbalances between the partners, unequal distribution of benefits, and the prospect for co-optation of CSOs by business and governments.

The question of *power imbalance* is a crucial one in addressing the potential for partnerships to bring benefits to the two parties. Typically, one would expect business partners to be considerably more powerful than CSOs in terms of size, capital, political influence, and other key power resources. However, such a perspective tends to overlook the important power that CSOs wield in terms of specific knowledge, communications expertise, and public credibility (Arts 2002). Certainly, though, where large companies and relatively more dependent CSOs work together, there is a danger that the relative influence of the two parties will be skewed towards corporate interests, and rewards may be unevenly shared; thus, despite the good intentions of both parties, the rhetoric of 'partnerships' might often mask somewhat more traditional and asymmetric relations between the two sectors (Seitanidi and Ryan 2007). Dauvergne and LeBaron (2014) suggest, in fact, that rather than just masking or exploiting power imbalances, partnerships may actually reinforce these imbalances by corporatizing activism and limiting CSOs to market-based solutions. In addition, it has been argued that business–CSO alliances might favour the interests of companies and CSOs in developing countries over those in less-developed countries (Bendell and Murphy 2000).

We might also look to the *distribution of the benefits* of partnerships. Darcy Ashman (2001), for example, suggests that the benefits of many CSO–business partnerships are garnered more by the partners than they are by the constituencies they are supposed to be aiding. Examining ten cases of collaboration in Brazil, India, and South Africa, Ashman (2001) reveals that, although both businesses and CSOs tended to reap benefits in terms of improved public images,

Ethics in Action 10.2 Casting the spotlight on human exploitation: the light and dark sides of big data

Sara Glozer

I have recently been reflecting on how 'big data', or advanced 'data analytics', might help or hinder society's pressing issues, including human exploitation and disempowerment. I see this as the 'light' and 'dark' sides of big data. I am particularly interested in considering how big data may facilitate new kinds of collaborations between government, business, and civil society organizations (CSOs) for societal good (Figure 10.6). This is the 'light' side of big data. To unpack the benefits of multi-sector partnerships, I draw on the work of the Data-Pop Alliance, a global coalition that promotes a 'people-centred' approach to the big data 'revolution' and provides a useful four-part framework to understand big data for social good.

First, the *descriptive* function of big data involves early detection of humanitarian issues. A recent partnership, under the 'Operation Red Alert' campaign, has seen an Indian CSO, *My Choices Foundation*, and technology companies, come together to tackle human trafficking. Using advanced analytics applications, the Indian census, and additional socio-demographic data, villages in rural India that are most at risk of trafficking have been identified and preventive measures have been put in place. Here I see partnerships providing access to new information and empowering at-risk communities.

Second, the *predictive* function of big data permits 'now-casting'; making real-time inferences related to key social issues. The Global Slavery Index, for instance, provides an interactive map of the prevalence of modern slavery in different country contexts. Utilizing data gathered across 167 countries, this visual aid helps to measure the global scale of slavery, forced labour, and human trafficking. And with a large proportion of refugees being forced into slavery, the World Food Programme

Figure 10.6 The light side of big data: facilitating partnerships across market, civil, and state sectors

(WFP) and the United Nations High Commissioner for Refugees (UNHCR) have used such data to develop innovative ways to manage aid payments in collaboration with technological and financial companies. Today, in Jordan's Zaatari refugee camp, nearly 80,000 Syrian refugees are able to purchase food via eye scans instead of traditional cash or card payments. Here 'big' data inferences are translated into 'small' data support through biometric data and blockchain technology, benefitting vulnerable populations.

Third, the *prescriptive* (or diagnostic) function of big data goes beyond description to make recommendations on the basis of causal relations. As part of the US Climate Data Initiative, launched in 2014, a 'Social Vulnerability Index' tool was initiated to identify communities that may need support during change related natural disasters. Using US census data, citizens were mapped in relation to factors including poverty, access to transportation, and housing conditions, and their subsequent risk levels in relation to extreme heat, precipitation, and water-borne illness exposure. Promoting stronger data analysis and climate resilience, this initiative shows how preventive partnerships can avoid human suffering, economic loss, and potential avenues for exploitation.

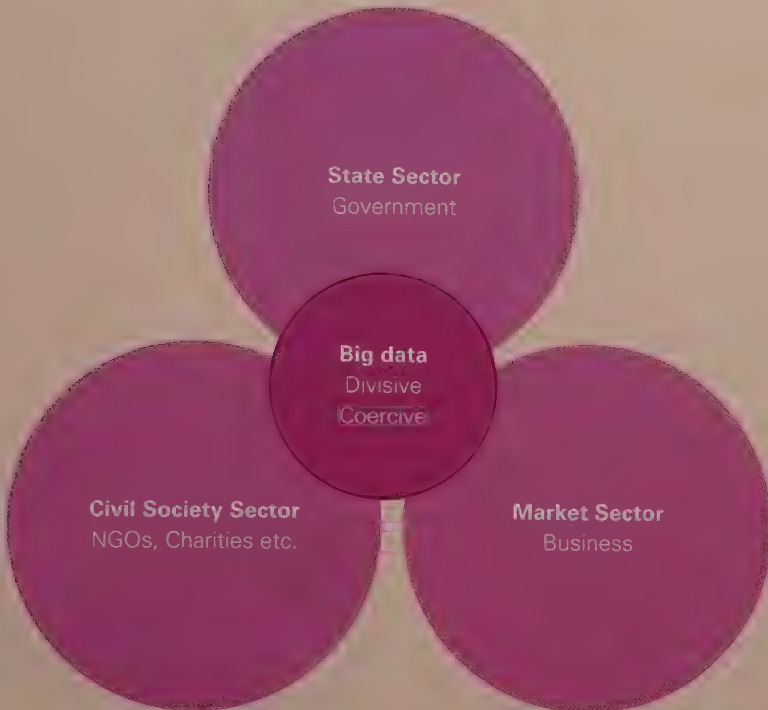
Finally, the *discursive* function of big data sees dialogue within and between key stakeholder groups identifying needs of vulnerable populations. GSMA's Big Data for Social Good initiative recognizes that, in disaster-prone zones, mobile operators can capture anonymized and aggregated mobile indicators, such as location, and enable relief agencies to direct resources efficiently during humanitarian crises. GSMA has developed a task force of mobile phone operators across 100 countries and an advisory panel from UN agencies and CSOs to leverage mobile operators' big data capabilities in addressing epidemics and humanitarian crises. This initiative is a living, breathing example of Sustainable Development Goal (SDG) 17 (Partnership) in action, providing a clear societal vision for big data that realizes the true potential of dialogue.

From these examples, it is clear that big data has the capacity to *empower, innovate, inform, and advocate* for societal good across market, civil, and state sectors. But what happens when our collaborators become adversaries, experiencing ethical conflict between their visions for big data? Indeed, despite such huge strides being made in the role of big data in society, scholarship is calling for new ways of thinking about governance in a digital age. As mindful business and society scholars, what is the true cost of atomizing individuals, communities, and whole regions into data points? I see this as the 'dark' side of digital data and herein I see two counter-arguments to the ideas of big data for social good (Figure 10.7).

First, it has been argued that 'big data is mistakenly framed as morally neutral', given an inclination to consider strategic and operational uses of data, as opposed to ethical appropriateness. As our reliance on data grows, and multi-sector collaborations continue, to what extent should we as citizens understand how data is shaping our daily lives? Let's think about the ethics of 'invisible' algorithms here. While machine-assisted learning can offer greater efficiency in understanding the potential impact of natural disasters on human health, such algorithms may also discriminate against marginalized populations. Debate continues on the benefit of facial recognition technology, for instance, which is increasingly being used by police forces to profile criminals. Studies have proven that the tools are less reliable at profiling women and black people, leading to innocent people being placed at risk. Such developments, or 'imperfect biometrics', may further entrench systemic inequalities, perhaps even exacerbating extreme forms of human exploitation. Is big data *divisive*?

Second, the recent Cambridge Analytica (Ethics in Action 5.1) furore has heightened public scepticism around the role of technology corporations in society, particularly in democratic processes. This case stretches our understanding of corporate citizenship, to reveal the politicization of corporate players as powerful entities who determine what data is 'public' (open and accessible) and 'private' (intimate and secure). Here the commercial remit of much big data activity seeks to unbalance the power relations

Figure 10.7 The dark side of big data: destabilizing partnerships across market, civil, and state sectors



depicted in **Figure 10.6**. Indeed, within the multi-sector partnerships outlined above, where does accountability for collection, analysis, dissemination, and storage of big data lie? As the commercialization of attractive big data sets continues, we must ask: is big data *coercive*?

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QUESTION

Think about big data business–CSO collaborations from the perspective of discourse ethics. How can this theory inform how such partnerships work in practice to maximize societal good?

Visit the online resources for web links to useful sources of further information.

better external relations, gains in resources, and organizational capacity-building, the development impacts on community beneficiaries were less predictable and considerably less emphatic. In fact, relatively little attention has actually been paid to assessing the real impacts of partnerships on the social problems and communities they are supposed to be benefiting, not least because of the major conceptual, methodological, and practical problems involved in conducting such impact assessments (Van Tulder et al. 2016).

Finally, another key risk in business–CSO collaboration is the prospect it raises of *corporations and governments co-opting CSO partners*. This is a particular concern, since it threatens the independence that makes the civil sector such an important balance to corporate (and government) power. Through working with business, CSOs lay themselves open to the accusation of 'sleeping with the enemy' and thereby forfeiting some of their legitimacy and public credibility (Herlin 2013). Recently, Maher (2018) has argued that business-CSO engagement is ethically problematic in eroding the psychological freedom of local communities. Focusing on the context of a large mining corporation in Chile, Maher explains how a corporation was able to shape consensus with a community that it had been in conflict with for over 15 years, yet this consensus was artificially imposed and achieved through unethical forms of dialogue, emphasizing the need to look at the process of collaboration, not just the output. And as we see in **Ethics on Screen 10**, this issue is nowhere more salient than in the market for tobacco. As the cigarette market is dominated by a small number of shareholder-owned companies, the protection of public health often runs in conflict with the protection of shareholder value (Branston and Sweanor 2016). Against this backdrop, critical questions are being asked as to how smoking addiction may be tackled by better business-CSO collaboration.

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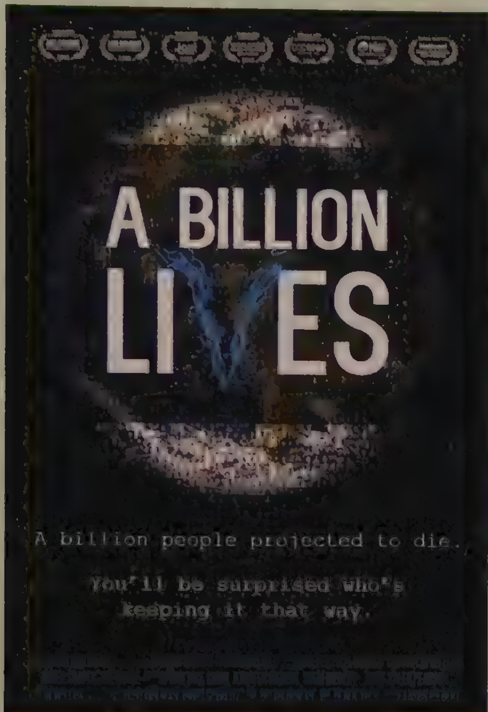
CSO independence

For the relationships between CSOs and businesses to function effectively, whether those relationships are adversarial or collaborative, it requires that the parties remain independent of one another. On the one hand, CSOs are unlikely to be able to occupy the moral high ground and pose a credible challenge to corporate abuses unless they are, and are seen to be, sufficiently distant from their corporate adversaries. On the other hand, if CSOs become too closely involved in working with corporations, they might lose the public credibility that made them attractive partners for business in the first place. For example, the decision by the US environmental group, the Sierra Club, to endorse the 'Green Works' range of Clorox cleaning products in 2008 prompted accusations that the CSO had 'sold out'—especially since few of the NGO's members

ETHICS ON SCREEN 10 *A Billion Lives*



A Billion Lives/Attention Era Media

First-time filmmaker Aaron Biebert presents theories about a conspiracy to kill the nascent vaping industry

John DeFore, *Hollywood Reporter*

With the United Nations' World Health Organization projecting that a billion people will die this century from smoking-related diseases, this provocative documentary casts a critical eye on the conflicts of interest that exist between market, civil, and state sector actors in the tobacco industry. The film reflects on how these conflicts shape smoking cessation, as well as persistence, in modern society, and considers what the future could look like in a smoke-free world. At its heart is a conspiracy theory around how pharmaceutical companies, anti-smoking advocacy groups, tobacco companies, and even governments themselves offer disinformation, provide over-regulation, and work to undermine the nascent e-cigarette or 'vaping' industry. This documentary offers a compelling and timely critique of the smoking industry, of interest to those of us whose lives are touched by tobacco on a daily basis.

The film kicks off with some startling home truths. After watching the film, it is hard to question the World Health Organization's argument that the current tobacco epidemic is one of the biggest public health threats the world has ever faced. Facts, figures, and visuals cover topics including chronic asthma, lung cancer, and premature death, conveying a serious sense of dystopia that shifts tobacco use far from its glamourized roots to the heavily stigmatized practice that it is today. Did you know that smoking doubles your risk of having a heart attack by impacting your blood circulation and causing your heart to work faster? Or that smoking causes 84% of deaths from lung cancer? Far from just focusing on active tobacco use, fresh concerns surround second-hand smoke (exposure to cigarette smoke in public places), third-hand smoke (cigarette smoke that is impregnated into hair, clothes, furnishings etc.), and even 'green tobacco sickness' (dangerous toxins that enter through the skin when handling wet tobacco leaves during tobacco harvesting). Yet *A Billion Lives* doesn't just stop with its hard-hitting and expertly substantiated claims around the power of big tobacco corporations in manipulating the true impact of tobacco and maintaining steady distribution. It also hones in on how these corporations attempt to deliberately derail the growing industry for e-cigarettes, deemed to be 95% safer than smoking and also highly effective in helping people to quit.

In the search for the truth, *A Billion Lives* traces some of the misrepresentation surrounding e-cigarettes in society, particularly the idea that vaping is a gateway into smoking, for teenagers. With the first e-cigarette developed in 2003, today civil, market, and state sectors seem to be largely in agreement that e-cigarettes are less harmful than regular tobacco cigarettes. Yet, the film offers an important economic rationale as to why tobacco (and state and civil sector organizations) may be suppressing the sale of e-cigarettes in order to ensure their survival. Presenting interviews with World Health Organization executives, CSO campaigners, scientists, technologists, policy makers, and health experts, Biebert poses some tough questions around transparency, accountability, and trust within the tobacco industry.

After watching the film, we are left with some unanswered questions. Will e-cigarettes manage to take the leap from being a one-off purchase among adults, or a teenager habit, into a long-term, viable alternative to tobacco? Perhaps so. E-cigarettes continue to disrupt tobacco, with recent estimates suggesting that the e-cigarette market represents a $10 billion opportunity; and with advocates like Biebert out there, it is easy to see why. Can e-cigarettes encourage more people to 'kick the habit' and make tobacco use a thing of the past? Only time will tell . . .

SOURCES

https://www.hollywoodreporter.com/review/a-billion-lives-942090.

https://abillionlives.vhx.tv.

https://uk.reuters.com/article/uk-health-ecigarettes/uk-experts-urge-smokers-to-switch-to-e-cigarettes-for-big-health-gains-idUKKBN1FQ011.

https://www.nhs.uk/smokefree/why-quit/smoking-health-problems#eZfdUPtKYyrQqGt3.99.

https://www.statista.com/statistics/493214/global-e-cigarettes-dollar-sales.

Visit the online resources for web links to useful sources of information related to this film.

had been consulted prior to striking the deal. However, the partnership was not renewed in 2014 after a period of declining sales for the brand led to a major marketing overhaul aimed at appealing more to mainstream consumers.[12]

In many ways, though, the issue of CSO independence runs deeper. If we return to our earlier categorization of civil society as the 'third sector', the idea that CSOs provide social and political pluralism in order to create and sustain a civilized society is clearly compromised if the third sector loses its independence from the other sectors (market and government). The very purpose of CSOs as representatives of the diversity of interests in society is potentially weakened once they begin to lose their unique position outside of the market sector. This is particularly problematic in a society where the power of corporations and of the market is so substantial that working with them can often be the most effective way of achieving real change. As many CSOs have found, if you want to improve the working conditions of workers in developing countries, or prevent the destruction of tropical rainforests, the best way to do so is to leverage the purchasing power of corporations in the West. But what happens when the former 'poacher' becomes the 'gamekeeper' (Zadek 2001: 80)?

There is clearly a certain degree of ambivalence here. While CSOs might want to harness the power of the market (usually through corporations) to achieve social ends, the market can be seen to 'contaminate' the primarily moral orientation of the civil sector (Eikenberry and Kluver 2004). As Kaler (2000) suggests, the power of many campaigning groups to tap into public opinion and influence business is in itself derived from the moral stance that they take—and in particular, their ability to relate to people as moral agents rather than just as consumers. The ethical challenge for CSOs, then, is to retain their distinctly moral orientation, while making a positive and constructive contribution to business practice—a delicate balance by any standards.

Thus far, most CSOs appear to have been relatively successful at doing this. Sometimes they will do so by setting up separate 'business' units within the organization, such as Amnesty International's Business Group, or by forming specific task forces charged with developing business relations, while the rest of the organization gets on with its usual campaigning role. Clearly, though, such a development involves CSOs (and, for that matter, corporations) to be inherently flexible, i.e. they often need to be both friends and foes to corporations, sometimes even at the same time (Elkington and Fennell 2000; Crane and Livesey 2003). Perhaps the most fundamental problem here, though, is one of *CSO accountability*, a problem that we discussed in some depth earlier in the chapter. After all, the proposition that CSOs should remain to some extent independent of corporations is based on an assumption that they have a specific task to fulfil on behalf of a certain constituency—and that this task is compromised by a loss of independence. This issue is even more pronounced when CSOs do not merely partner with business, but actually transform into a business, as we shall now see.

SOCIAL ENTERPRISE

The escalating number of CSO alliances with businesses suggests an increased attention in the sector to using market-based solutions to address social problems. Indeed, the growing influence of business strategies and tools within civil society is undeniable (Eikenberry and Kluver 2004). One facet of this has been the more business-like approach to philanthropy that is evident in the emergence of *venture philanthropy* and *impact investment*. These use financial investment techniques and clear impact metrics to guide grant making and social investments (Moody 2008). Bodies such as the Bill and Melinda Gates Foundation or Google.org, the social venture arm of the Google company, are good examples of this, given their belief in the power of business to address major problems such as global poverty, health, climate change, and education challenges.

Beyond the changing landscape of philanthropy, civil society has also incorporated business methods into the very fabric of new organizational forms. The emergence of **social enterprise** as a distinct model of CSO has been a significant development within civil society since the 1990s (Defourny and Nyssens 2006). A social enterprise seeks to take elements of a business enterprise and of a CSO in the same organization—i.e. it forms a kind of 'hybrid organization' that is distinguished by its 'pursuit of the dual mission of financial sustainability and social purpose' (Doherty, Haugh, and Lyon 2014). As Defourny and Nyssens (2017) argue, social enterprises largely fall into four categories:

- The Entrepreneurial Non-profit (ENP) Model: Non-profit organizations that develop forms of earned-income business in support of their social mission.
- The Social Cooperative (SC) Model: Mutual interest enterprises, owned and democratically controlled by members for non-capitalist interests.
- The Social Business (SB) Model: Mission-driven businesses using business methods to address social problems.
- The Public Sector Social Enterprise (PSE) Model: Public policies are transferred to private entities; social enterprises emerge as 'public-sector spin-offs'.

Social enterprise A hybrid form of organization that pursues a clear social purpose through commercial trade.

Table 10.4 Key differences between social enterprise, CSOs, and corporations

	Social enterprise	Civil society organization	Corporation
Aims	Social and economic value creation	Social value creation	Economic value creation
Role of profit	Profit earning; limits on profit distribution	Non-profit making	Profit maximizing
Activities	Production and trade of social goods and services	Production of social goods and services, campaigning, advocacy, research, grant-giving, etc.	Production and trade of goods and services
Funding	Self-funding (at least partially)	Grants, donations, or membership dues	Self-funding
Governance	Based on participation and democracy among stakeholders	Based on participation and democracy among stakeholders	Based on accountability to providers of capital

Sources: Dees (1998); Defourny and Nyssens (2006); Nicholls (2006)

As a relatively new phenomenon, the definition of social enterprise (also known as 'social entrepreneurship' or 'social business') remains rather fuzzy, but several key characteristics distinguish social enterprises from either traditional CSOs or from business enterprises. These are summarized in **Table 10.4**. As the table shows, social enterprises occupy something of a middle ground between a conventional business and a civil society organization (whether promotional or sectional). Some elements they share with the former (such as the production and trade of goods and services for a profit) while others they share with the latter (such as having a distinct social purpose).

Social enterprise originally emerged from the civil society sector, primarily as a way for non-profit organizations to diversify their funding and become more self-sufficient. As the idea has spread, stand-alone social enterprises have emerged, with fewer connections to traditional charities, some of which have been registered as regular companies, while others have looked to register under new legal categories such as those discussed in Chapter 6, including community interest companies (in the UK) and benefit corporations (in the US). As such, the phenomenon has been met with considerable attention and enthusiasm (Nicholls 2006). Well-known examples include the fair trade confectionery company, Divine Chocolate, the UK-based Big Issue company, which sells magazines to support the homeless, the microfinance organization Grameen Bank, the Aravind Eye Hospital in India that provides eye surgery to low-income patients, and TOMS, explored in more detail in **Case 10**, which has marketized a 'one-for-one' model for shoe sales. In many cases, social enterprise has been associated with bottom-of-the-pyramid strategies for addressing poverty that we first introduced in Chapter 8.

Social enterprises can bring a number of benefits to civil society, including the development of more sustainable and diverse funding streams, the introduction of innovative solutions to social problems, greater efficiency, and better targeting of services to client needs. However, their novel form also throws up some particular ethical challenges, mainly because of the various tensions that arise in combining divergent economic/social goals, values, norms, and identities (Smith, Gonin, and Besharov 2013). Such risks pose important challenges for managers in social enterprises. Given that, in many countries, social enterprises do not even have explicit legal recognition as a distinct social form, institutional pressures may well encourage them towards being increasingly understood and practised in narrower commercial and revenue-generation terms (Dart 2004). However, in being aware of the potential pitfalls, social entrepreneurs can at least steer clear of the major dangers and press for broader institutional change. Indeed, civil society has increasingly taken a stronger role in the regulation of commercial enterprise, as we shall now see.

CIVIL REGULATION

In Chapter 9, we saw how some regulation of business could be achieved outside government. At that juncture, we looked mainly at self-regulation by business, corporations 'policing' their suppliers, and even competitors regulating each other through industry partnerships and programmes. As we have already seen in the current chapter, civil society can also be a source of regulation of corporations. Whether through protests and boycotts, or various forms of collaboration, CSOs increasingly appear to have the power to shape, influence, or curb business practice. Some authors refer to this as **civil regulation** (e.g. Bendell 2000; Zadek 2001; Vogel 2008; Williams, Heery, and Abbott 2011). As Williams, Heery, and Abbott (2011) suggest, civil regulation refers to 'arrangements that allow for the involvement of civil society organizations in pressing corporations to deliver improvements in social and environmental standards'.

Civil regulation Arrangements whereby civil society organizations play a role in defining and enforcing social and environmental standards for business.

Civil regulation, then, goes somewhat further than just the *relations* that CSOs have with business. Rather, we also have to look at the *outcomes* of these processes. Sometimes these outcomes are company or project specific, sometimes they have a more lasting impact. The point is that business collaboration with civil society can sometimes help to build social and political structures that effectively change the rules for whole groups of business actors, or even entire industries. Returning to **Table 10.3**, we can see that the Ethical Trading Initiative (ETI), among others, has institutionalized this kind of civil regulation at both the national and the global level. Indeed, the ETI commits its members to adopting its code of practice on workplace standards, and requires that members report on their performance against its provisions. **Figure 10.8** presents the ETI Base Code, which is implemented under guidance from the ETI. These activities essentially act as regulatory forces on member organizations, since failure to abide by them would, at least in principle, lead to companies being thrown out of the initiative. While this is rare, Levi Strauss was suspended from the ETI in 2007 for refusing to sign up to a principle guaranteeing workers a 'living wage' (Butler 2007).

Probably the main drawback of this and other examples of civil regulation is their voluntary nature. Whereas state regulation is obligatory and usually includes some form of punishment for non-compliance (such as a fine), civil regulation relies on the voluntary commitments of companies. Many companies will not choose to join, and even among those that do, there is always the option to leave if their priorities change. Although some form of censure is available for civil actors in these kinds of circumstances—they can publicize

Figure 10.8 Ethical Trading Initiative Base Code

1. Employment is freely chosen
2. Freedom of association
3. Working conditions are safe and hygienic
4. Child labour shall not be used
5. Living wages are paid
6. Working hours are not excessive
7. No discrimination is practiced
8. Regular employment is provided
9. No harsh or inhumane treatment is allowed

Source: Ethical Trading Initiative, https://ethicaltrade.org/about-eti/what-we-do

the incidents, create bad publicity, and even initiate protests, boycotts, and other forms of direct action—this constitutes a relatively 'soft' form of regulation compared to traditional government modes.

Despite such limitations, civil society has certainly taken an increasingly important role in forming codes of practice and even some more formal elements of rule setting and regulation (Zadek 2001). As we intimated in the previous section on globalization, given the apparent absence of effective global government, this is especially the case with transnational regulations, such as those dealing with environmental management or labour conditions. In contrast, at the national level civil regulation is much more rooted to state policies and the law, where CSOs are more likely to work with, rather than in place of, governments (Williams, Heery, and Abbott 2011). Although the business literature has been fairly slow to acknowledge this development, even here, the growing influence of civil society in the institutional arrangements facing international business has been recognized (e.g. Doh and Teegen 2002; Dahan, Doh, and Guay 2006). Certainly, CSOs can now at least be considered to be part of the group of actors shaping the rules, norms, and practices of international business—assigning them a place in what writers in the politics literature tend to call systems or regimes of 'global governance' (e.g. Bernstein and Cashore 2007; Vogel 2008). We shall examine the implications of this further in Chapter 11, when we move on to discuss more generally the role of government and regulation in shaping the context of business ethics.

The key point to take away from this section is that civil society can act as a conduit through which individual citizens can exert some kind of leverage on, or gain a form of participation in, corporate decision-making and action. As we shall see in the final section, this issue of participation also has important ramifications for notions of sustainability.

CIVIL SOCIETY, BUSINESS, AND SUSTAINABILITY

Civil society has been at the forefront of the development of sustainability theory and practice. This is hardly surprising when we consider that each of the three elements of sustainability—social, environmental, and economic—have been typical foci for CSOs of various kinds, from humanitarian NGOs (social issues), to development agencies (economic and social issues), and environmental activists (environmental issues). Moreover, many environmental and other CSOs are now actually dedicating themselves to advancing the cause of sustainability itself (rather than focusing on specific issues), often through engagement with business, among other stakeholders. It is, then, the representative nature of the stake held by CSOs that makes them so integral to sustainability in business. At best, corporations can only really claim to represent economic interests. However, progress towards sustainability requires that a wider set of interests are also represented and incorporated in business decisions. Certainly, government is one actor that can do this, but given the retraction of the state and the growth in civil society influence, CSOs also increasingly fulfil this role for social, environmental—and to a lesser extent, economic—interests. As we saw with some of our examples of business–CSO collaboration in the previous section, diverse social, environmental, and economic interests can be brought together to develop solutions that are more balanced on the sustainability scorecard.

The problem here, though, is that because CSOs are advancing particular interests, they cannot necessarily be expected to agree on what actions are likely to be the most appropriate for corporations to take. Sustainability remains contested in most, if not all, areas where corporations might be expected to act. Hence, if corporations are serious about addressing sustainability, one principal challenge is inevitably going to be how best to balance the *competing interests* of different civil actors. At another level, even once the competing interests of civil society have been taken into account, corporations are still left with the problem of deciding the extent of community and NGO *participation* in decision-making. Finally, some argue that the importance of civil society to sustainable business is so great that companies should not simply resign themselves to the existence of CSOs, but should actively seek to *sustain civil society* through their actions.

BALANCING COMPETING INTERESTS

Civil society is made up of a wide variety of disparate actors, each of which may be promoting single issues that comprise different aspects of sustainability. While some, such as Amnesty International, will primarily advocate social issues, others, such as the WWF, will promote environmental issues, and others, such as business associations, will promote economic interests. This means that sustainable business needs to take account of such competing interests simultaneously—representing a major challenge for any organization. In recent years, civil interests have clashed around the market for genetically modified (GM) crops, with governments, alongside national and international environmental NGOs, actively promoting investment in GM crops for reducing harmful pesticides and increasing crop yields, and therefore farmer income. Indeed, the market for GM is growing, with recent estimates valuing the industry at $15.8 billion. It is also argued that GM can play a key role in tackling global food shortages. Brazil continues to be the driving force of GM produce, and GM crops are currently growing in prominence in Africa and also within a sceptical Europe, despite resistance from local governments.[13] Controversy continues to surround GM production, however, with environmental organizations, consumer groups, farmers, regulators, and scientists questioning the long-term safety of GM. Concerns surround regulatory processes and labelling, with CSOs such as GM Watch seeking to 'counter the enormous corporate political power and propaganda of the GM industry and its supporters'.[14] At worst, as Gruissem (2015) argues, a number of CSOs have been responsible for fuelling public scepticism and activism around GM crops through unsubstantiated and misleading claims. In industry, we also see a mixed picture. Large brands such as Kellogg's and Mars have turned to more explicit labelling of GM food in the US to reassure consumers and mainstream GM produce, while Del Monte has made an active commitment to move away from GM. With such competing interests characterizing the market, the debate about GM crops looks set to continue, creating challenges for businesses, who may wish to balance competing interests.

THINK THEORY

Think about the triple bottom line of sustainability and set out the various stakeholders that represent the different interests involved in the market for GM. Is it possible to determine which sustainability elements are deemed more legitimate (or are the most strongly represented) by the stakeholders involved?

Visit the online resources for a suggested response.

FOSTERING PARTICIPATION AND DEMOCRACY

As the GM market shows, the key issue for sustainability in business–civil society relations is not so much that civil groups agree, but that they are able to actively *participate* in decisions that affect them. Many authors writing about sustainability in business stress the need for greater democracy in corporations through community participation. As Bendell (2000) contends: 'organizations . . . that affect you and your community, especially when they affect the material foundations of your self-determination, must be able to be influenced by you and your community . . . What are required are new forms of democratic governance so that people can determine their own futures in a sustainable environment.'

CSOs clearly have a crucial role to play in enabling individuals to participate, at least in some way, in the corporate decisions that affect them. This issue is particularly important for those groups or interests that might typically not have any other voice in corporate decision-making. The natural environment, non-human species, and future generations are all sustainability stakeholders that need CSOs to represent their interests. Furthermore, given the systemic or 'wicked' nature of the issues faced in business–society relationships, there has been greater appreciation that business–CSO participation should embody deliberation, in taking into account different types of knowledge and conflicting values, enhance decision-making through putting mechanisms in place to cater for dispute settlement, and ensure that decisions are enforced through monitoring, implementing, and evaluating impacts (Dentoni, Bitzer, and Schouten 2018). While evidence suggests that corporations tend to limit the degree of participation that CSOs and other stakeholders can exercise—often concentrating more on simply managing them rather than involving them—this does at least provide a *possible* mechanism for participation, although certainly not a guaranteed one (Manetti 2011).

SUSTAINING CIVIL SOCIETY

As we can see then, in one way or another, whether as irritant or inspiration, CSOs play a vital role in encouraging business towards more sustainable practice. Sometimes this is played out in direct business–CSO relationships, sometimes via their work influencing government regulation of business, and sometimes simply through demonstrating how sustainability can be achieved through social enterprise. Therefore, for companies serious about sustainability, the health and vitality of civil society is crucial.

A flourishing civil society is something that corporate managers in most developed countries take for granted. Therefore, their role in ensuring that CSOs prosper is likely to require the typical forms of charity, volunteering, and collaboration that we discussed above. However, in developing and transitional economies, the situation can be very different. Countries such as China have a much less developed civil society, and this situation is replicated across numerous other contexts, including Russia, Eastern Europe, the Middle East, and Central Asia. In these contexts, corporations may find that they need to develop capacity among local NGOs to deal with sustainability issues. For example, the mining companies, AngloGold Ashanti and Anvil Mining, have worked with the international NGO, Pact, to build local community capacity among informal groups and small civil organizations in the conflict-ridden Democratic Republic of Congo (Kolk and Lenfant 2012). While this kind of high engagement with the sustaining of civil society itself may seem like a step too far for most companies, the importance of a strong civil society, as well as other 'countervailing forces' to business—such as government and the media—should not be underestimated in attempts to tackle sustainability challenges.

SUMMARY

In this chapter we have critically discussed the role that civil society plays in business ethics. We have taken a fairly broad definition of what constitutes civil society in order to include the whole gamut of organizations outside business and government that are relevant for corporations to deal with. These CSOs have been shown to have a somewhat different stake in the corporation compared with the other stakeholders we have looked at so far. Specifically, the representational nature of CSO stakes makes their claim rather more indirect than for other constituencies.

In examining the ethical issues arising in business–CSO relationships and the attempts by business to deal more responsibly with civil society, we have charted a gradual shift in the nature of these relationships. Business and civil society have moved from a solely confrontational engagement to a more complex, multifaceted relationship that still involves confrontation but also includes charitable giving, collaboration, social enterprise, and aspects of civil regulation. Regardless of the nature of this interaction, though, we argued that for citizens, local communities, and other groups typically excluded from the decision processes of business, CSOs can act as important conduits through which their interests can be expressed and advanced within business. Although civil groups themselves may not even always agree with each other, the contribution they make to engendering a pluralistic context for business decision-making and action appears to be vital to our understanding of business ethics.

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STUDY QUESTIONS

1. What are civil society organizations, and what relevance do they have for business ethics?
2. Select one civil society organization about which you have some knowledge. Who or what does this organization purport to represent—does this make it a promotional or a sectional group? In what ways is the organization accountable to its various stakeholders?
3. 'It is simply not really the company's choice who is and is not a stakeholder' (Zadek 2001: 163). Evaluate this statement in the context of civil society organizations as stakeholders of business.
4. What is a social enterprise? What are the main opportunities and challenges faced by social enterprises in achieving social outcomes?
5. Explain the concept of civil regulation. How appropriate is this term for describing the nature of civil society activities towards companies?
6. Digital technology is facilitating new kinds of interactions between market, civil, and state sector actors. What are the benefits and risks of digital technology in enhancing corporate sustainability?

RESEARCH EXERCISE

Select a CSO with which you are familiar and conduct some research on its main activities with and/or against business.

1. What are the main tactics and approaches used by the CSO in its relations with business?
2. Would you say its approach has shifted at all over time? Explain your answer.
3. How effective and ethical do you think the CSO's approach has been?

KEY READINGS

1. Baur, D. and Palazzo, G. 2011. The moral legitimacy of NGOs as partners of corporations. *Business Ethics Quarterly*, 21 (4): 579–604.
   This article provides a closer look at the important question of how we can judge the moral legitimacy of CSOs when they partner with corporations. It offers a framework for assessing the special stake held by CSOs as well as a set of criteria for determining CSO moral legitimacy based on how exactly they interact with companies.
2. Doherty, B., Haugh, H., and Lyon, F. 2014. Social enterprises as hybrid organizations: a review and research agenda. *International Journal of Management Reviews*, 16 (4): 417–36.
   The literature on social enterprises has expanded rapidly since the turn of the century. This article provides an excellent overview of the research to date, focusing particularly on the issues emerging from the 'hybrid' nature of social enterprises in pursuing simultaneous social and economic goals.

10

Visit the online resources for further key reading suggestions.

CASE 10 TOMS and 'one for one': implementing CSR one step at a time

This Case examines TOMS' unique approach to social responsibility in the footwear and apparel industry. The Case discusses the firm's philanthropic 'one-for-one' giving model, whereby one pair of shoes is donated to a person in need for every purchase made, supporting those in need in developing countries. TOMS has recently diversified its product portfolio, expanding its one-for-one philosophy into apparel, accessories, and coffee. Here you have the opportunity to evaluate the potential risks and rewards of TOMS' social responsibility strategy and its role in poverty alleviation, considering if and how TOMS successfully supports its key stakeholder audiences as part of its social enterprise model.

Visible on the shoe racks of high street stores across the globe, on first glance, TOMS look like any other canvas slip-on shoe; yet behind the Argentinian alpargata styled summer shoe lies much more than comfortable and fashionable footwear. Since its origins in 2006, TOMS has developed a 'one-for-one' philosophy; donating one pair of shoes to a person in need for every purchase made. And the company's commitment does not step there. Having more recently branched out into TOMS Eyewear, TOMS Bags, and TOMS Roasting Co. Coffee, the company is considered as a key case for revolutionizing philanthropic giving, putting CSR at the heart of its business model focused on social enterprise. Yet as TOMS and its beneficiaries reap economic and social rewards, are the altruistic efforts of TOMS sustainable in the long-term? While TOMS' founder, Blake Mycoskie, takes pride in the company for selling 'a lifestyle, not just a pair of shoes', is this really a case of 'ethics pays', or is TOMS merely representative of a short-term business 'fad' in corporate giving?

Compassion for fashion?

The footwear market is booming. Estimated at US$79,858 million in 2017, current market growth is being attributed to a focus on 'athleisure'—the use of athletic footwear in non-sporting activity.

Capitalizing on this trend is Californian brand 'TOMS', with its casual style of slip-ons, sandals, flip flops, boots, and wedges, many of which are made with sustainable and vegan materials including natural hemp, organic cotton, and recycled polyester. Aside from embracing the trend towards footwear that reflects consumers' increasingly healthy and sustainable lifestyles, TOMS' commitment to social responsibility cuts right through to the heart of the business. Where footwear companies have come under fire for shifting production to low-cost developing countries, or adopting environmentally questionable sourcing techniques regarding leather and plastics, or even charging eye-watering premiums for the most recent fashions, TOMS' unique 'one-for-one' philosophy sees the business supporting a range of causes, including poverty, water scarcity, health, and hygiene through transaction-based giving.

TOMS' story began in 2006, when founder Blake Mycoskie visited Argentina to find a generation of children growing up without shoes. Not only were these children suffering poor hygiene as a result of their lack of shoes, but they were also exposed to serious health concerns. Conditions such as tetanus and podoconiosis were particularly prevalent, as bacteria on the ground entered into children's bodies through open cuts and wounds on their bare feet. The lack of shoes also had a knock-on effect on children's educational abilities, with many being turned away from schools where shoes were mandatory for attendance. What struck Mycoskie was that the majority of those locals who were wearing shoes were wearing alpargata canvas shoes that were made locally and cheaply. Surely there had to be a way to tackle this footwear problem?

Mycoskie's initial response was to set up a shoe-based charity to donate money to supporting these children, but soon he realized that this idea was too short-term in its aspirations. How could he develop a business that supported these children in need on a more sustainable business? It was here that the idea for a social enterprise was born for 'Tomorrow's shoes', which soon became known as 'TOMS.' From modest beginnings in the dusty Argentinian backstreets where Mycoskie sourced his first 250 alpargata canvas shoes, to the distribution hub he set up in his Los Angeles apartment to bring these shoes to US consumers, TOMS is now a privately owned global brand valued at US$625 million with 550 employees. Today, the average retail price for a pair of TOMS is around US$55, with the majority of revenues coming through direct to consumer ecommerce, as well as wholesale channels. The brand is also currently building its global presence in bricks and mortar standalone stores that offer a community feel for 'people to exchange ideas' while shopping for shoes, bags, and other accessories. Mycoskie states, 'When we started, no one was doing "one for one", and a lot people thought we were crazy. Many of my business colleagues thought we would not make money and we would never be sustainable. Now there are over 100 one-for-one companies.'

Against an impressive revenue backdrop, TOMS has given away over 75 million pairs of new shoes to children in need across 70 countries since 2016 through its 'one-for-one' giving model. Working with giving partners on the ground, including civil society organizations such as Africare and Save the Children, TOMS' mechanic works by identifying areas of need among children in developing countries and placing orders that are customized to ensure the right size and style for the recipient. It is not only the cost of the shoe that is borne by TOMS, but also related costs for transport and distribution, with a pair of shoes reaching a recipient approximately six months from the initial purchase. In addition to its work with shoes, TOMS has developed its model further, launching TOMS Eyewear, TOMS Bags, and most recently, TOMS Roasting Co. Coffee (see **Table 10.5**). The business also recently launched the 'Start Something That Matters' social entrepreneurship fund to support new social enterprises to grow and flourish.

As a social enterprise, a business created to further a social purpose as we have defined earlier, TOMS reinvests its profits in causes that support the environmental and social needs of people in developing countries. This means that without shareholders to support, TOMS has absolute freedom to act in the interest of its core stakeholders: employees, customers, and beneficiaries. What is particularly impressive is that TOMS does not invest in any advertising, focusing instead on building

Table 10.5 TOMS product portfolio and impact

	Consumer	Beneficiary	Impact
TOMS Shoes	Buys one pair of shoes	Receives one pair of shoes	75 million shoes distributed
TOMS Eyewear	Buys one pair of sunglasses	Receives sight restoration (full eye exam by trained medical professionals and treatment)	Restored sight to 500,000 people
TOMS Bags	Buys one TOMS bag	Receives a safe birth through vital materials and training	175,000 mothers
TOMS Roasting Co. Coffee	Buy one bag of TOMS Roasting Co. Coffee	Receives 140 litres of safe water (a week's supply)	450,000 weeks of safe water

Source: https://www.toms.co.uk/improving-lives#

brand engagement through generating word of mouth and free publicity via social media and celebrity endorsements. The business also runs an annual 'without shoes' campaign, encouraging people to walk around in bare feet to draw attention to the issues faced by many in the developing world, even agreeing to give away a pair of free shoes for everyone who posts a picture of their without-shoes activity on Instagram.

Perpetuating poverty?

Despite being heralded as a success story of social responsibility, TOMS' business model has been critiqued in recent years on social and economic grounds. Focusing first on the social critique, in the early days, TOMS sourced its raw materials and produced shoes locally in Argentina. Yet, as the business scaled its activity, manufacturing moved to China. To some, this focus on cheap, mass-production marked a departure away from the brand's true values. While TOMS has defended its decision, in 2013 the business responded to these concerns, committing to producing one third of its 'Giving Shoes' in local regions of Ethiopia, India, Haiti, and Kenya to encourage more sustainable futures by creating work for local communities. In making this move, the business also benefits from the decreased transportation costs, with a halo effect for the environment. Yet with the entire model of TOMS being called into question by social and cultural commentators such as Slavoj Žižek,[15] the impact of TOMS on development in local economies remains a clear concern for many. To what extent is TOMS genuinely driving a sustainable future for the beneficiaries it supports? Critics see TOMS as a business that encourages beneficiaries to become dependent on gifts, perpetuating stereotypes of developing country stakeholders as poor, needy, and with little agency. Therein, TOMS is 'undermining local communities', 'treating rather than curing social symptoms', and encouraging 'self-congratulatory smugness'.

Turning to economic concerns, despite TOMS' diversified product portfolio, the majority of TOMS revenue is premised upon its core alpargata range, leading some to question the viability of the business should this line fall out of fashion or become a passing 'fad.' Focusing more specifically on the economic impact of TOMS on the ground in El Salvador—a TOMS focus area for shoe giving—recent research has suggested that households who receive free pairs of shoes may not actually need them, and therefore buy fewer shoes from local vendors, depressing economic activity in the areas that need it most. These deeper challenges suggest issues of inequality within contemporary forms of philanthropy and question the long-term sustainability of initiatives such as TOMS' 'one-for-one' philosophy. We might agree, yet is doing something better than nothing?

QUESTIONS

1. What are the main CSR issues facing the apparel and footwear industry? How does the TOMS 'one-for-one' model address these issues?
2. Focusing on recent news, take a look at what three or four CSOs have been saying about the TOMS business model. Do they broadly align with the 'compassion for fashion' argument, or do they see TOMS as 'perpetuating poverty'?
3. Who are the main stakeholders of TOMS and how has the firm prioritized them? Is it right to prioritize them in this way?
4. What are the potential risks and rewards of TOMS' approach to philanthropic giving? How sustainable do you believe this business model to be in the long term?
5. How could TOMS enhance its social licence to operate? Consider the ethical challenges of social enterprises listed in this chapter in your response to this question.

Visit the online resources for web links to useful sources of further information on this Case.

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11

Government, Regulation, and Business Ethics

Having completed this chapter you should be able to:

- Explain the specific stake that governments have in corporations by outlining the double agency that governments assume.
- Describe the ethical issues and problems faced in business–government relations.
- Critically evaluate the shifts in these issues and problems in the context of globalization.
- Critically evaluate the changing role of business and CSOs in the regulatory process.
- Explain the role of governmental regulation in achieving potentially sustainable solutions.

Key concepts:

- Imperative regulation
- Private regulation
- Corporate political activity
- Corporate lobbying
- Corruption
- Global governance

INTRODUCTION

With the growth in corporate attempts to influence government policy through lobbying, political donations, and perhaps even bribery, the issue of business relations with government has increasingly become a key facet of business ethics. Is it acceptable for corporations to use their considerable power to shape government policy? Is the government jeopardizing its role in protecting the public interest when politicians sit on the board of corporations? Should powerful business interest groups, such as the oil industry or the food industry, actively contribute to the development of regulation that is supposed to ensure they operate in society's best interest? These are all crucial questions for business ethics when looking at relationships with governments. And as we shall see, they represent some of the most pressing problems confronting us in an era of globalization, where the lack of a 'global government' makes the 'policing' of multinational corporations increasingly problematic.

In this chapter we will analyse in more depth some of these ideas that have been bubbling up throughout the book—the increasingly political role of corporations, the involvement of private actors in the regulation of business ethics, the weakening of the state in protecting our social, political, and civil rights, etc.—as well as examining some new (but related) issues that arise when looking at the business–government relationship, such as corporate lobbying and party financing. Government has a crucial role to play in establishing the 'rules of the game' by which we judge business ethics. However, as we shall see in this chapter, in the era of globalization, the traditional boundaries between business and government have blurred to such an extent that defining these rules has become a matter of ethical concern in itself.

GOVERNMENT AS A STAKEHOLDER

Government is frequently presented as a major stakeholder in business (Vallentin 2015), but before we proceed to specify the nature of this stake, it is important that we define a few terms a little more precisely.

DEFINING GOVERNMENT, LAWS, AND REGULATION

We have actually come across government several times already in this book. For a start, government is involved in issuing laws regulating business practice. Back in Chapter 1, for example, when we made our initial definition of business ethics, we pointed out that business ethics tended to begin where the law ended. This would suggest that government takes on the role of setting at least the baseline of acceptable practice in business. As we shall see shortly, the government also effectively provides business with a 'licence to operate' in its jurisdiction.

When talking about 'the government' in this context, though, we have to be aware that we are actually talking about a whole group of different actors, institutions, and processes (Niskanen 2017). In democratic societies, the government would include all legislative and executive bodies that act on the basis of parliamentary consent. Furthermore, the incorporation of those functions pertains to various levels: it would start with the *transnational level*, such as the United Nations or the European Union; it would then include the *national government*, but also, in many cases, *regional governments*, such as the Welsh Assembly or the government of a Canadian Province; finally, it would also relate to *local or municipal authorities*. In short, government consists of a variety of institutions and actors at different levels that share a common power to issue and enforce laws. By laws, you should remember that, in the context of business ethics, we are basically concerned with the codification of what society deems are appropriate and inappropriate actions. Laws serve as a codification into explicit rules of the social consensus about what a society regards as right and wrong.[1]

Looking specifically at laws codifying right and wrong *business* practices, it is important to recognize that the law is only one aspect of the broader area of regulation of business. Although laws are of some relevance to business ethics, it is the role of regulation that is most vital to understand. This is because it is regulation more generally, rather than the law specifically, which tends to operate in the *grey areas* of business ethics. After all, once we have a clear legal ruling on certain business practices, they are arguably no longer really matters of business ethics. But those that are still open to other forms of non-legally binding regulation certainly are. So what exactly do we mean by regulation, here?

Regulation is all about the rules governing business behaviour. It includes laws and acts, but also pertains to other forms of formal or informal *rule-making and enforcement*. This includes broader governmental policies, concepts, goals, and strategies, all of which ultimately enable or restrict the activities of business actors. In Denmark, the government has positioned itself as a leader in issues of corporate responsibility and seeks to steer business practice by a host of action plans and initiatives promoting inclusivity, competitiveness, and accountability (Vallentin 2015). In the UK, there are specific laws dealing with issues of discrimination in the workplace, including the Sex Discrimination Act 1975, the Race Relations Act 1976, Disability Discrimination Act 1995, and the Equality Act 2010. In addition to these legally binding rules, though, there are also other *regulatory instruments* that are intended to encourage compliance with non-discrimination through non-legally binding (hence 'weaker') modes of influence. For instance, until the introduction of the Employment Equality (Age) Regulations in 2006, anti-ageism in the UK was tackled by a voluntary code rather than by a specific law. Now, some aspects of this are covered in the Equality Act 2010, which collects together a number of previous laws and regulatory instruments. Not all regulation is therefore enforced through the law; sometimes it operates by creating norms that define 'acceptable' behaviour, but which essentially only operate through social enforcement or encouragement.

Originally, most regulation would be issued and enforced by governmental bodies in the narrow sense, such as parliament, ministries, and public authorities. However, if we look at the way many financial markets are regulated, we find that the majority of rules that govern actors in these markets are not, in fact, issued by the government at all, but by a *private* body, such as the Financial Conduct Authority in London or the Securities and Exchange Commission in New York. In a similar vein, in Chapters 9 and 10 we raised the prospect of corporations and civil society organizations becoming involved in regulatory activity. Later in this chapter we will discuss in more detail the role of *private actors* in regulatory processes. To begin with, though, it is important to clearly state that regulation is no longer the solitary prerogative of the government: it can be delegated to other parties, who can also be responsible for steering the conduct of others (Rose and Miller 2017).

These two clarifications—that regulation is about certain types of rules, and that it operates through governmental and non-governmental actors—lead us to an understanding of regulation at two levels. On the one hand, there is government regulation that is backed up by the sanction mechanisms of police, military, courts, and parliaments—all of which make governmental regulation strong and lead to its designation as **imperative regulation**. On the other hand, there

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is regulation issued by companies, industry associations, or civil society groups—often referred to as private regulation. This results in rules that may also have a binding effect, even though the sanctioning mechanisms might be softer and more indirect—as we have seen in some of the previous chapters on consumers, suppliers, or civil society and their power to enforce business rules and behaviour.

Imperative regulation Rules that are issued by governmental actors and other delegated authorities to constrain, enable, or encourage particular business behaviours. It includes rule definition, laws, mechanisms, processes, sanctions, and incentives.

Private regulation Rules that are issued by business, business associations, or civil society actors to standardize and harmonize ethical business practices. Their force normally relies on market mechanisms.

This leads us to one final clarification about the relationship between business and government. When talking about government, the terms 'political' and 'politics' typically arise. Originally, these terms described the governance of the Greek people, the 'polis', and consequently included making laws, running the economy, international diplomacy. Over the course of time, however, 'politics' has become a somewhat ambiguous concept, with all sorts of connotations, such as in 'office politics' or 'political correctness'. In this chapter, however, we will use the word 'politics' in its original sense. Therefore, when we discuss how companies are getting more involved in 'politics', we mean that they increasingly act in areas that have traditionally been the prerogative of governments, such as regulation.

Let us start by clarifying the nature of the relationship between business and government, and in particular the specific stake held by the government in corporations.

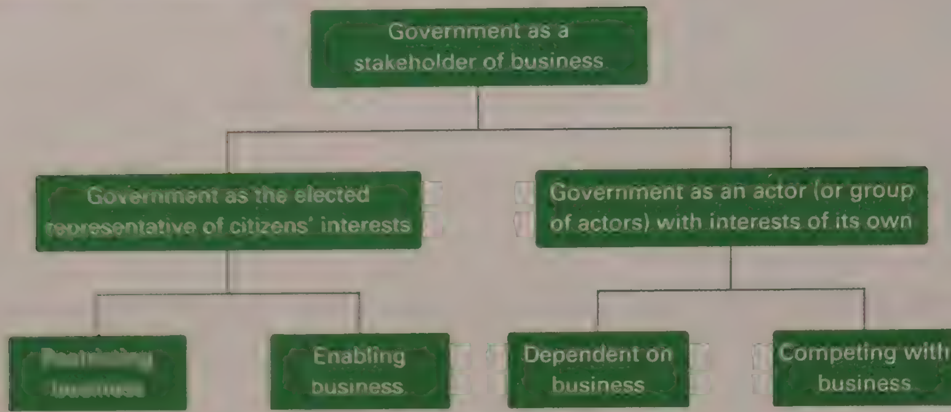
BASIC ROLES OF GOVERNMENT AS A STAKEHOLDER

When talking with managers about the government, or even simply skimming through the business press, it does not take long to realize that people in business tend to have a very ambiguous attitude towards the government. On the one hand, business likes to complain about an over-active government, perhaps because it demands 'excessive' taxes, imposes 'red tape', or restricts their activities, for example by blocking mergers or raising new standards for product safety. On the other hand, business also expects the government to be constantly active in protecting their interests, such as improving infrastructure, or making international trade agreements which provide business expansion opportunities while keeping foreign competitors out of the market.

If we look at this relationship from the government's perspective, the situation is by no means any more straightforward. While politicians often like to surround themselves with powerful business leaders, and are quite aware of the fact that a booming economy helps their chances at the ballot box, they also have to consider the interests of their electorate, who expect governments to 'police' business and to make sure that it acts for the benefit of society.

We could go on and list numerous examples of the rather complex, interwoven, and often quite contradictory ties between business and government. However, when discussing stakeholder theory in Chapter 2, we determined that a stakeholder of a corporation could be defined by the

Figure 11.1 Government as a stakeholder of business



fact that it benefits or is harmed by the corporation, and/or that its rights were affected by the corporation. Applying this to government, we have to ask the question: how is government affected by business and how are certain governmental actions influenced by corporate action?

In order to sort out this somewhat complicated relationship, we have to differentiate the two basic roles of government, which are shown in **Figure 11.1**. These are government as a representative of citizens' interests and government as an actor (or group of actors) with interests of its own.

GOVERNMENT AS A REPRESENTATIVE OF CITIZENS' INTERESTS

Unlike many other stakeholders, such as shareholders, employees, or suppliers, government, in principle, represents an *entire community*, since it is elected by the citizens of a certain town, region, country, or even continent (such as the European Parliament). In this respect, governments are similar to CSOs, which we discussed in Chapter 10, in that they represent the interests of a wider community. In this role as the *representative of citizens' interests*, governments **mainly define the conditions for the licence to operate of business.**

That said, we have to recognize that this aspect of the governmental role is of different strength in different political systems. In democratic systems, governments have a fairly strong incentive to act in their citizens' interests as they face elections on a regular basis. Of course, it is not always obvious what course of action actually is in the best interests of citizens. Consider the revelations that came to light as a result of employee Edward Snowden deciding to blow the whistle on the US government's National Security Agency using information and communications technology companies to spy on the public. While the government may have claimed that such actions were necessary for security reasons to protect the public interest, many took exception at the **significant invasion of privacy it entailed.**

In more authoritarian or dictatorial systems, governments might be less concerned about protecting citizens' interests—or at least having to justify their actions in such terms. However, even in such systems, governments cannot survive indefinitely if they constantly violate the interests of their citizens, as the examples of the fall of communism in Eastern Europe in 1989,

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the end of apartheid in South Africa in the 1990s, or the Arab Spring of the early 2010s have shown, though the results of each of these remain unclear.

In practice, this definition of the licence to operate normally becomes most visible in areas where governments—in their fulfilment of the electorate's mandate—try to *restrict business*. For example: they issue environmental regulation that forces companies to install filters or to recycle rather than dump waste; they impose taxes on corporate profits; and they investigate whether a merger bid is in the public interest. All of this is done because society wants business to operate in a way that, to stick with these examples: does not threaten the health of present or future generations; contributes to the maintenance of the infrastructure in a country; or maintains free and fair competition for the benefit of consumers.

Free and fair competition, however, is closely linked to the positive side of the government's role towards business (Carroll and Buchholtz 2015: 332–49). In forbidding a merger or regulating the behaviour of traders on the stock market, governments, in fact, take over a key role in *enabling business* activities in the first place. For instance, if the EU commissioner for competition forbids a merger and thus avoids the gradual emergence of monopolies, they make sure that there is still competition and—ultimately—still a free market as such. In fact, if we look to most of the regulatory functions of governments with regard to business, they have an enabling role more than anything else: markets can only function if basic rules are established and an appropriate regulatory framework exists.

However, the enabling role of the government is by no means confined to markets and other directly economic issues. It also pertains to a number of broader rules in society, such as a reliable and fair legal system, protection of private property, and efficient sanctioning mechanisms for illegal behaviour. Economic transactions rely heavily on safe expectations about the behaviour of the transaction partners. One of the problems of some less-developed countries is that a weak government does not tend to provide the stability that encourages foreign investors to enter these markets.

There is, of course, some debate about the degree of governmental responsibility necessary for a functioning economy (Carroll and Buchholtz 2015: 326–9). The options range from a passive, laissez-faire, hands-off approach where government just sets the rules and controls the compliance of economic actors, to the other extreme where government assumes a forceful role in 'industrial policy' by actively interfering with the economy. The former approach was dominant in Anglo-American-style economies for a considerable time, while many European governments have long operated a much more hands-on approach (Matten and Moon 2008). The financial crisis of the late 2000s, however, seems to have changed this: especially in the US and the UK, governments effectively took control of a number of banks and other companies. In some cases this was temporary. During 2017/18, the UK government's shares of Royal Bank of Scotland (which had been taken over in the financial crisis) were cautiously sold off again, reducing the government's level of ownership and control, even though at a loss to the Treasury. Looking beyond the Western context to regions such as South and East Asia, state influence on, if not ownership of, business remains high—a phenomenon that we will return to later in this chapter.

GOVERNMENT AS AN ACTOR (OR GROUP OF ACTORS) WITH INTERESTS OF ITS OWN

The motivations for government to take an active role in the economy might be quite strong at times, but it is important to understand that this is not only because they are acting directly in the interests of their electorate. Government can also be seen as an actor (or group of actors), with interests of its own. One reason for this is that governments normally have a self-interest to be re-elected. One could also argue that, in most democracies, the control of the government by the electorate is somewhat indirect. This certainly applies to transnational governing bodies such as those of the European Union, but is increasingly an issue in many countries globally. As a result of this situation, we have to assume that government's stake in business is not only as an (indirect) representative of its electorate but also as a direct stakeholder with its own rights and interests.

As such, governments are first and foremost interested in a booming economy. Former President Bill Clinton's by now proverbial US election slogan, 'It's the economy, stupid!' (meaning that government success would mostly be judged in terms of competence in running the economy), could be said to be largely true for many countries. This actually makes governments very dependent on business. On the one hand, their electoral success depends on maintaining high employment, increasing incomes, and expanding business activities. On the other hand, none of these things is directly influenced, let alone achieved, by government alone. This situation makes government a rather weak and dependent stakeholder, which many businesses are often only too aware of.

Government, in its role as a public sector provider of services, is not only dependent on business, but also in a sense competes with business. If we think about the privatization of telecommunications, the ownership of television companies, or the increasing usage of private companies in national healthcare provision, we can see that business increasingly has also either taken over from, co-operated with, or competed with public organizations in certain industries. This has probably been displayed quite visibly in the wars in Iraq, Afghanistan, and several smaller conflicts around the world where we see a clear trend of outsourcing many traditional military tasks to private security contractors, often putting army units under keen pressure to navigate the constant comparison between the traditional military and private sector and compete for their own jobs (Brewis and Godfrey 2018).

One could argue that in this context, governments are similar to those stakeholders described in Chapter 9, especially competitors. However, the delicate nature of the relations between business and governments when they compete in the same industry derives from their different and/or unequal positions of power. Government enjoys considerable authority and institutional power, since it can define industry rules and exercise legislative power. Corporations, on the other hand, might sometimes enjoy economic advantages, since they potentially have recourse to additional sources of finance for investment that government may be unable or unwilling to generate through taxation.

Having now set out in some detail the two main aspects of the stake held by government, we shall proceed to look at the ethical issues and problems that this complex relationship inevitably raises.

ETHICAL ISSUES IN THE RELATIONSHIP BETWEEN BUSINESS AND GOVERNMENT

From the discussion above, it should already be fairly obvious that the stake (or stakes) held by government puts it in an ambiguous position with business. However, most of the ethical issues that arise in this relationship pertain to the *closeness* of business–government relations. In particular, critics have questioned whether cosy relations between business and government can jeopardize the government's ability to fulfil its role of protecting the public's interest. Ethical Dilemma 11 gives you an opportunity to think about some of these problems in a specific example of 'close' business–government relations.

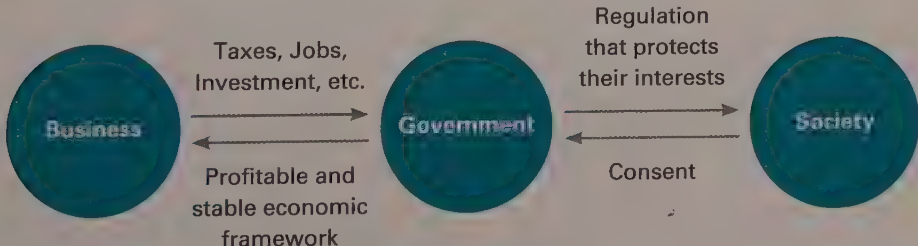
We will start with the basic issues here—essentially problems of legitimacy and accountability—and as we proceed through this section, we will examine the ethical case for different types and levels of business–government interaction. Towards the end of the section we will turn our attention to some further ethical issues that arise from government attempts at privatization and deregulation of industry.

CORE PROBLEMS: LEGITIMACY, ACCOUNTABILITY, AND MODES OF INFLUENCE

Probably the main source of ethical problems in business–government relations is to be found in the fiduciary relationship that government has to society in general. What this means is that government is entrusted with the responsibility to act in society's best interests. As **Figure 11.2** shows, and has long been known, government here is in a somewhat ambiguous situation (Stigler 1971; Rose and Miller 2017). First, government is in a mutually dependent relationship with society: government receives consent from society and acts upon this to enact a regulatory environment that protects society's interests. But government also has a relationship with business where both partners are mutually dependent on each other for certain things: government is expected to provide a profitable and stable economic environment for business to act in; business is expected to provide taxes, jobs, and economic investment in return.

For government, the main ethical issue here lies in the necessity of carrying out the mandate that society has given it (in a democracy, this would be established through the electoral process) and to live up to what it has promised to its constituents. One aspect of this, of course, is its constraint and enabling of business. However, sometimes the relationship that government has with business can threaten its ability to live up to its duty to society. As Robert Reich (2007) argues, many of the decisions taken by the US government are not the reflection of citizens' voices but the result of special business interests who have lobbied government officials or paid for their campaigns. The political thriller *Miss Sloane*, our **Ethics on Screen 11**, features such a lobbyist. In this case the lobbyist is depicted in the ferociously controversial arena of gun control in the US, which gained new impetus after civil society—in the form of students—added their voice against the powerful National Rifle Association in 2018, with the 'March for Life' protest. The activist and journalist Naomi Klein (2007), in her book *The Shock Doctrine*, shows how in many countries business has gained key influence over governments and provides many examples from developed, as well as developing, countries.

Figure 11.2 Government between business' and society's interests



ETHICAL DILEMMA 11 Always good to have friends in politics

Business deals have always been fairly casual in the little Argentinian town of Bariloche, a popular mountain resort in the foothills of the Andes. Since Juan started his construction business 15 years ago he has won many contracts from the municipal authority: redecoration of the town hall, a new kindergarten, even a nice chunk of the new circular road around town—all of which have kept his 20 employees busy and helped Juan and his family to enjoy a decent lifestyle. Sitting on the patio of his 18th-century farmhouse and watching the fumes of his Cohiba cigar slowly vanishing into the sunset, he feels quite at ease—if only there had not been that meeting with Santiago this afternoon.

Santiago is an old friend from Juan's childhood days. But when Juan started working at 15 years old, building houses with his father, Santiago had become a teacher. Santiago had soon got bored and before long he went into politics. For ten years now, Santiago has been the mayor of Bariloche—but despite his lofty position, the two friends have continued to get on very well.

They normally meet once a month in the back room of a local café, share a glass of Malbec and exchange gossip. Of course, they also talk about business, and knowing what is coming up in the mayoral office has always helped Juan to tailor his bids to the municipal authority's priorities. Not that Santiago has directly pushed things for him—but among friends, they talked about projects and Juan was clever enough to integrate this information into his bids. Of course, he has known how to show his old friend some gratitude: whenever Santiago needed something fixed at his house, it was never more than half an hour before one of Juan's employees turned up and sorted it out. And when Santiago gave a party for his 50th birthday last year, Juan took over the entire catering for 200 people, including drinks—but this was just a 'birthday present' for his friend.

However, today things seemed a little different. Santiago knows that Juan is in a bit of a rocky patch and urgently needs new contracts to keep his company prosperous, and so he mentioned the new municipal swimming pool that is about to be built. Santiago also mentioned that the project manager from another construction company, whom he had met last Sunday after church, had offered to build Santiago a swimming pool at his house if his company won the contract. Now Juan knows all too well that this has been one of Santiago's dreams for years. Not that Santiago had asked for anything, but there was a funny tone to the conversation when he was telling Juan about his chat with the other contractor and about the pool.

Juan could easily fiddle the bills for labour and materials in such a way that a small swimming pool in a private house could be 'hidden' in the accounting of a project of the magnitude of the municipal pool job. But was that taking things a little bit too far? On the one hand, there were his employees and their families: without much other work in the pipeline, they needed Juan to find new work to keep them employed. Besides, doing a favour for an old friend here and there was hardly a crime, Juan reasoned. On the other hand, renewing Santiago's roof after last year's storms had already been a bit of a stretch for Juan. Building a swimming pool was clearly a bigger investment than any of the favours he had provided before. What would his employees say? And if they did not *say* anything, what would they *think*? And what about the rest of the people of Bariloche, what would they think? They are Juan's customers and neighbours too, after all.

The more he thinks about it, the more angry Juan gets—at his competitor for offering his friend the swimming pool; at Santiago for being so greedy; and at himself for having been gradually dragged into this somewhat puzzling relationship by a so-called friend. He decides to discuss the matter with his wife Valentina when she returns from her trip to visit a friend in Buenos Aires later that night. Maybe she would have some good ideas about how to sort out the dilemma.

QUESTIONS

1. What are the main ethical issues in this case?
2. What are the main ethical arguments for and against building the swimming pool for Santiago?
3. Would the situation be different if Santiago were a regular business customer rather than the mayor?
4. If you were Valentina, how would you advise Juan to proceed?
5. What should Juan do to deal with this situation in the long term?

What it boils down to is that business obviously can have a significant influence on the implementation and direction of governmental policies. It is therefore no surprise that the issue of 'public sector ethics' has gained considerable momentum (Dobel 2007). The main ethical consideration arising from this situation is twofold: first, there is the problem of legitimacy of business influence; and second, there is the issue of accountability.

The legitimacy of business influence on government has two sides. On one side, business is perfectly entitled to expect a stable legal and economic framework for its activities; what might be called corporate political activity (CPA) is a normal part of business practice (Anastasiadis 2014; Den Hond et al. 2014). On the other side, if these demands interfere with the mandate of government to act in the interests of its citizens, the line is clearly crossed, and the possibility arises of irresponsible lobbying at best, and corruption at worst (Anastasiadis, Moon, and Humphreys 2018). This then leads directly to the justification for scrutiny and the aspect of accountability: since the government acts as a representative of society's interests, the public has a right to be informed about governmental decisions with other constituencies (such as business), and to be able to determine whether it is acting in its interests or not.

Corporate political activity Any business effort to influence government or public policy. It includes activities such as lobbying, political advertising, financial contributions, legal action, and political campaigning.

Although not the same, accountability and legitimacy are fairly closely related to each other. Accountability will always be a problem when the influence of business on government is perceived as potentially illegitimate. We discussed the issue of accountability of corporations in Chapter 2, and to a certain degree, this is an issue in all business relationships with stakeholders. However, the difference in accountability in business–government relationships is that the problem is not just business accountability to its stakeholders, but also the accountability of both parties to society about their relationship. The digital environment and pervasive social media has created a crucial platform in providing more transparency and accountability around business–government relations.

In the following, we will analyse some of the more common practices where these concerns of legitimacy and accountability arise from the relationship between business and government. Although both partners are able to influence the other, the main concerns for business ethics are where business has influence on government. This can happen in a variety of ways.

ETHICS ON SCREEN 11 *Miss Sloane*

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We've seen the politicians front and centre in shows like* The West Wing *and in various movies as well; what we haven't seen are the power players behind the scenes, trading in influence, pulling the strings. It's kind of like the intersection between politics and espionage.

Jonathan Perera

Drawing on real political power plays in Washington DC, *Miss Sloane* is the story of a highly successful top conservative lobbyist, Elizabeth Sloane, played with steely effectiveness by Jessica Chastain. Screenwriter Perera has said that he was inspired to explore the profession of lobbying when he saw a televised interview with author and former lobbyist Jack Abramoff, who went to prison for a combination of fraud, tax evasion, conspiracy, and corruption charges related to misuse of his position. The gun control focus of *Miss Sloane* was because of its huge controversy in Washington DC in the face of the powerful gun lobby, at a time of regular brutal shooting attacks, especially on schools.

Directed by John Madden, the film contains a host of intense, troubled politicians and lobbyists, who are all caught in a web of tensions relating to goals they want to achieve and compromises made about how they get there. This film puts into sharp relief the 'means' versus 'ends' debate we see in Kantian versus utilitarian theory. Liz Sloane even says at one point to her principled boss, Rodolfo Schmidt (played by Mark Strong), 'The end is my concern. You liberal goodie goodies can fret over the means. You need me.' The luxury of taking a principled approach is thus challenged—someone, somewhere, according to Liz, has to get down in the dirt of the political arena and fight any way they can to achieve the desired outcomes. In contrast to some of the examples presented in this chapter where corporate lobbyists fight against socially desirable outcomes, such as greater pollution control, the goal in this film is a small adjustment to gun control regulation closing a loophole in the law that means no background checks are needed to buy firearms in the US—in contrast, say, to getting a driving licence. In juxtaposition to her reputation as not caring about the cause she fights for, Miss Sloane is appalled when the gun lobby, and a National Rifle Association-like group, try to recruit her in the first instance to fight *against* this amendment, including by improving the appeal of guns to women—i.e. 'guns for moms'. Once word gets out that she has literally laughed in the face of this offer, she is recruited (it turns out for a salary of $0) by the smaller, more ethical lobby firm that is opposing the bill. The campaign she runs is brutal, even though her boss stops her doing some illegal surveillance, saying, 'Our firm has certain standards below which I'm not prepared to stoop. Find another way!' Sloane justifies her approach robustly: 'I was hired to win. And I have a responsibility to use whatever resources I have'—a bit of a different twist on responsible lobbying. Some of the tactics she uses include going to great lengths to influence those who put pressure on senators (who will vote on the Bill), retaining a co-worker to work for her at the opposing lobby firm, hiring actors and making public displays to humiliate senators into voting with the amendment, having her own staff followed to catch anyone leaking information to the other side, and, on national television, exposing one co-worker who had been involved in a shooting as a child and kept it secret. We ultimately find out that she also went ahead and did the illegal surveillance, fabricating elsewhere a reason for her to be hauled in to a Congressional Hearing for unethical practice so that she can use the damning evidence she gathers and expose the dark underbelly of political dealing. She knows that this will end in a prison term, but somehow this also seems like an escape, a way out of the career she has perfected. An imperfect and highly flawed person, the film finishes as she is released from prison, at last drawing a line under the spectacularly tangled moral web she wove for herself and those around her.

SOURCES

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Visit the online resources for web links to useful sources of information related to this film.

Modes of business intervention in government

There are numerous long-established ways that business can influence government. William Oberman (cited in Getz 1997: 59) distinguishes between the following:

- **Avenue of approach to decision-maker.** Business influence can range from very *direct* approaches to political decision-makers in person to more *indirect* forms of influence, such as advocacy advertising or a media editorial that supports or challenges political decisions.
- **Breadth of transmission.** Influence can also be *public* (and therefore visible to all), or *private*, where politicians are approached behind closed doors.
- **Content of communication.** Finally, influence can either be *information-oriented*, i.e. focusing more on communication of information to persuade decision-makers, or *pressure-oriented*, which would involve more coercive types of approaches.

Ethical problems of accountability and legitimacy tend to arise in direct forms of private intervention. Beginning with the weakest form of such intervention—lobbying—we will explore progressively stronger interventions that involve more pressure-oriented content, such as party donations, until we arrive at corruption, where government policy is virtually dictated (or 'captured') by business through illicit payments and other forms of bribery. Beyond corruption, we go on to discuss the problems of privatization and deregulation, which see business not so much merely intervening in government as actually replacing it entirely. As we shall see, these different levels of intervention bring with them a range of ethical problems and issues.

11

LOBBYING

The most conventional, though nevertheless potentially effective, form of corporate political activity and direct, private business influence on government is corporate lobbying (Anastasiadis 2014; Anastasiadis, Moon, and Humphreys 2018; McGrath 2005). For corporations, this area has become increasingly important, and today many major corporations employ professional lobbyists or have an internal manager or unit that is responsible for 'government relations' or 'public affairs' (van Schendelen 2002). Their role is to manage the corporation's attempts to communicate with and persuade government officials about issues relevant to the business. Other lobbying takes place through specialized lobbying firms (such as Burson-Marsteller headquartered in New York), industry associations (e.g. the Confederation of Food and Drink Industries of the EU), or broader business associations (e.g. the Confederation of Indian Industry).

Corporate lobbying A form of corporate political activity. It covers activities by business to directly influence governmental decision-making through private communication in the form of information provision and persuasion.

In whatever form it is carried out, lobbying has clearly become a prevalent form of corporate political action (Lord 2000). Lobbying is a major industry. Taking the US as an example, total spending on lobbying peaked in 2010 at $3.52 billion, and has settled at around $3.3 billion since then,[2] with just over 11,500 lobbyists working in Washington DC in 2017. The biggest spend by sector, incidentally, for that year is pharmaceutical and health products (just shy of $280m), and business associations such as the US Chamber of Commerce take the top spot in terms of spending. Spending is not, however, necessarily a direct predictor of lobbying success. Comparisons of lobbying spend are difficult as they are measured in different ways. In the EU, recognition that this is a somewhat opaque part of corporate political activity, and policy-making activity, has begun the process of improving transparency around lobbying, with a mandatory Transparency Register as of December 2017.[3]

The key distinguishing feature of lobbying is that it is an attempt by business to influence legislators through providing persuasive information rather than explicit pressure (Lord 2000). Such 'information' can be in the form of specific data, analyses, or opinions on business-related public policy issues. However, the persuasive nature of this provision of information often also introduces considerable pressure on government decision-makers. For this reason, although lobbying might be considered an important part of the policy-making process because it brings in greater plurality, it has often been regarded as a somewhat questionable activity (Anastasiadis 2014). However, the practice occurs in various guises, some more dubious than others, and includes a broad range of instruments and processes. To get a more concrete picture (and a more comprehensive idea of the ethical implications of lobbying), we might consider the different types of corporate political activity (see McGrath 2002).

- **Atmosphere setting.** This is essentially an awareness-raising process intended to enhance government appreciation of industry issues and products, and to create a climate or 'atmosphere' amenable to further influence. This may include events, dinners, or information rallies that create visibility for the interests of industry in the government sphere.

- **Monitoring.** An important part of lobbying consists of building up relations with government officials in order to receive reasonably detailed and up-to-date or 'advance' information about ongoing legislative trends and processes.
- **Provision of information to policymakers.** This is the core activity of corporate lobbying. Government actors involved in policy-making cannot hope to know everything about the industries they are dealing with. As a result, they often seek out detailed, first-hand information from the very companies that are the subjects of proposed regulation. Strong relations between lobbyists and policymakers frequently mean that lobbyists are involved in the provision of this information.
- **Advocacy and influencing.** The ultimate goal of lobbying, of course, is not only to inform but to have an influence on decision-makers. Companies might attempt to do this by offering policy-oriented expertise and 'consultancy', often through industry associations, since they tend to have expert knowledge on certain issues.
- **Application of pressure.** Finally, business lobbying may use the opportunity to communicate with government actors to provide 'information' that is intended to put pressure on them to act in a certain way. This may include implicit or explicit 'warnings' about the potential consequences of particular policies, such as the likelihood of job losses or other politically sensitive outcomes.

In the case of these last three aspects of lobbying, it is not always entirely clear where relatively harmless information provision turns into advocacy, or even more questionable forms of pressurization. In order to distinguish between info provision, advocacy, and pressurization, we have to examine specific examples in a particular context. Let us look at a couple of illustrations of successful lobbying in action.

- In 2016 in the US, lawmakers passed a long-fought-for update to the regulation of toxic chemicals through the 2016 Toxic Substances Control Act (TSCA). Federal disclosure documents show that over 230 companies and groups had been involved in this process since 2010. According to American political newspaper and website *The Hill*, 'While some environmental groups think industry gained too much in the final version of the law, they are still eager for regulators to flex their new powers. Fewer than 10 chemicals had been banned by the Environmental Protection Agency in the 40 years before the TSCA was updated'.[4] Parties that come out well of this include: The American Chemistry Council; the National Association of Manufacturers; Environmental Defense Fund; the National Retail Federation; the U.S. Chamber of Commerce; the Alliance of Automobile Manufacturers; the Natural Resources Defense Council; and Safer Chemicals, Healthy Families, a coalition of more than 450 groups, labour unions, and individuals.
- In the European Union, it was initially seen as a great success that member states reached an agreement to reduce carbon emissions by 40% (from a 1990 base) by 2030. It only later transpired that this agreement was a watered-down version of what many member states and parts of the EU Commission initially had in mind—thanks, it seems, to Brussels' sixth-biggest lobbyist: the Anglo-Dutch oil company, Shell. Spending more than €4 million per year on lobbying in Brussels, Shell allegedly managed to avoid plans to make the 40% goal mandatory for all member states individually (Neslen 2015).

How should we assess these forms of lobbying from an ethical perspective (see Ostas 2007)? It is obvious that weaker forms of lobbying, such as monitoring of legislative processes or communication with decision-makers in government, are fairly unproblematic. Indeed, they would be expected potentially to improve regulatory outcomes, and may indeed be desirable. However, there is a case to be made about the relative ease of the ability of business interest groups to gain access to political decision-makers, compared with other interest groups, such as civil society organizations, who may lack the resources or presumed legitimacy to exercise influence. The main ethical problem is that lobbying appears to enable powerful groups to have an unequal effect on the outcomes of public policy because of the huge investments they are able to make in putting their case and convincing others to pursue a course of action that defends their companies' private interests ahead of the public good. Lobbying therefore threatens the relations of *trust* between governments as supposed 'agents' and representatives of their electorate. The example of lobbyists shaping toxic substance controls in the US or Shell influencing EU regulations certainly raises the question of whether their 'private' interests are the same as those of the wider 'public' electorate.

However, there is still a further aspect. Many regulatory processes are fairly invisible to outsiders—the point made by the screenwriter in our **Ethics on Screen** 11—and lobbying is often based on close personal ties between politicians and business. Corporations may use their 'recreational skills' (Dahan 2005) to gain access to politicians in a more relaxed, casual, and informal setting. Typical examples would be invitations to holiday resorts, private clubs, or big sporting events. Stephanos Anastasiadis and colleagues have developed a definition of responsible lobbying. They argue that responsible lobbying requires attention to: 'content—promoting social good through public policy means; process—adhering to ethical standards and acceptable to all parties involved; organization—the lobbying function is integrated into the firm and the firm is respectful of the political process; and environment—promoting an enabling context in which to lobby in a responsible manner' (Anastasiadis, Moon, and Humphries 2018).

THINK THEORY

Which ethical theory would be best suited to judge whether the lobbying activity of a corporation or industry association is morally right or wrong? What would constitute 'responsible lobbying' according to this perspective?

Visit the online resources for a suggested response.

PARTY AND CAMPAIGN FINANCING

11

The 2016 US Presidential Campaign was hotly contested politically between Donald Trump and Hillary Clinton; but there is another story, beyond the political one—that of the donations and dollars that made it possible. The winning candidate, President Donald Trump, was not the one who raised or spent the most money, though he did bear much of the cost himself, in the way that only a multi-millionaire can. One of the differences between Trump and Clinton's campaigns was the amount and number of small donations received—in this respect Trump far outstripped Clinton—he drew about $280 million from small donors giving $200 or less.[5] On top of that, there were donations from corporate executives, and thanks to the controversial Citizens United ruling of 2010, it is deemed constitutionally correct that organizations of any size, profit or non-profit, can act as if they were an individual and spend their money in the political arena to support their preferred candidates and causes—somewhat of a gift to the lobbyists.

Practices such as these have led to widespread cynicism about business donations to politics. Again, the key issue is the legitimacy of these donations: even if parties are perfectly accountable for the donations—and in a number of countries, politicians are forced to disclose party donations—the temptation to link political decisions to financial support is substantial. Ultimately, some of these party 'donations' could easily be seen as a 'fee' to obtain a certain political decision or other personal favours—which of course raises the prospect of preferential treatment, and might even go so far as to threaten the very notion of a democratic process.

As we saw in Chapter 9, there are a number of ways we can look at such 'gifts' to try and determine whether they are acceptable, including the intention of the gift-giver, the impact on the receiver, and the perception of other parties. For business too, though, this situation is clearly a dilemma: while having good relations with political parties seems to be a necessity in many industries, the instrument of party financing can be a double-edged sword. It gains access—but it could also severely harm the company's image and perhaps encourage questionable behaviour on the part of employees.

The ethical dilemma for corporations becomes even more complicated, given that they are not the only ones who work hard at gaining influence with political parties: in an attempt to professionalize their strategies, CSOs have also increasingly sponsored political parties and events (Harris and Lock 2002). This partly brightens the moral terrain of party financing, since corporations, then, are more or less part of a general trend in society—although again the problem of the differential resources available to business actors compared with civil actors needs to be raised.

Of course, one possible way of dealing with these problems is for corporations to simply introduce rules that forbid political donations. For a while, this was supposedly the response of BP, one of the world's largest oil companies. Today, BP are best known in business ethics terms because of the Deepwater Horizon, Gulf of Mexico Oil Spill in 2010, as depicted in **Ethics on Screen 5**, but it is worthwhile remembering that this is a company which has a long history of political activity. Indeed, there is an argument that BP was allowed to drill at incredibly risky depths in the Gulf of Mexico because of leniency it experienced in the licencing process. Meanwhile, in 2009, the company broke its own records and spent nearly $16m on lobbying the federal US government, making it one of the 20 highest spenders that year (Juhasz 2010). This is in contrast to the early 2000s, when BP banned any funding of political parties, with its code of conduct stating that it would 'make no political contributions, whether in cash or in kind, anywhere in the world.' Although such a move was certainly commendable for making a stand on an issue of increasing contestability, there was more to BP's decision than initially met the eye. First, the firm continued to contribute millions of dollars to political groups and US political action committees (PACs) that it regarded as outside the scope of its policy (Leonnig 2010). Second, with its tax contributions, spending power, and over 100,000 employees worldwide, BP is a typical representative of a group of multinationals that do not necessarily need to do extra party financing in order to be worthy of governmental attention. In addition, BP was able to take advantage of close relations with the UK government through personnel shifts between the two organizations (Maguire and Wintour 2001), a widespread phenomenon often referred to as a 'revolving door' (Wilks 2015). These ties conceivably allow the same kind of lobbying efforts that we mentioned earlier, without actually needing to specifically invest in formal 'lobbying'. But this, as we shall now see, raises a different kind of conflict of interest problem at the individual level.

OVERLAP OF POSTS BETWEEN BUSINESS AND GOVERNMENT: INDIVIDUAL CONFLICTS OF INTEREST

'Revolving doors' between business and government are common in Europe or North America, but have also been identified in other parts of the world. In Japan, for example, it is a common phenomenon for politicians to move into careers in the private sector and vice versa (Hayes 2009). However, if a company's managers go to work in government, we might reasonably ask whether they are acting for the government (as an agent of the general public) or for the company (as an agent for its shareholders). Clearly, this overlapping of posts raises quite substantial individual-level conflicts of interest when there is a clash between the two agency relations involved, though it is undeniable that sabbatical schemes that help understanding on technical issues between business and government can be valuable.

It is not only business people working for the government that can result in conflicts and dilemmas; the overlap works both ways. Many senior politicians have secured positions on the boards of large companies or in other senior advisory roles. In the UK, between 2000 and 2014, 600 former ministers and high-ranking civil servants were appointed to over 1,000 different business roles (Wilks 2015). In France, which still has a considerably high government ownership of corporations, the overlap of interests between business and government is so substantial that some elements of the media identify a 'crippling cronyism' in the French government.[6]

A particularly well-known case is that of former Italian Prime Minister, Silvio Berlusconi. During his times in power from 1994 to 1995, 2001 to 2006, and 2008 to 2011, Berlusconi, as the owner of Italy's three major television stations and largest publishing house, was able to dominate the media and thereby marginalize criticism of his government.[7] Various contestable bills were debated in parliament without major media coverage inside the country. Moreover, revelations in 2009 about Berlusconi's alleged improprieties with prostitutes led to a swathe of writs from the prime minister in an effort to block coverage in the non-Berlusconi-owned newspaper, *La Repubblica*, as well as in several foreign magazines and newspapers. A controversial documentary, *Videocracy*, released in the same year, and which was highly critical of Berlusconi's influence on democracy and the media in Italy, was also refused airing by national TV networks RAI and Mediaset, because it was 'offensive' to the reputation of their boss.[8] Incidentally, Berlusconi was convicted of tax fraud in 2013, avoiding prison only because his age was over 70. In 2018, he was delighted to be cleared to run for public office again.

The ethics of occupying a dual role in business and politics is therefore somewhat questionable. On the one hand, as we have alluded to, it could be argued that it has certain advantages if politicians and civil servants have had experience of the business world and vice versa. It certainly makes politicians more aware of the economic realities underlying many of the issues about which they have to decide. It might be suggested, even, that industry experience can provide politicians with a more professional style of work and decision-making compared to what normally dominates the rather bureaucratic structures of the public domain. All of these factors could enable a more efficient approach to political work and therefore might be argued to be in the best interests of society. Close links between business and politics might also be an advantage in industries and projects whose success is strongly reliant on political factors. Examples could be entry into foreign markets, where the principle 'the flag goes and the trade follows' seems to have been a successful approach for some countries and industries. This more utilitarian argument would, in fact, see some benefit in a close overlap between business and politics.

On the other hand, there are also quite significant ethical problems linked to such a close amalgamation of business and politics. The President of the United States, Donald Trump, is himself a business man and while he handed over the legal control to two of his sons when he took office, he retains an interest in the success of his family's business, and could hardly be better positioned to influence policy. There have also been questions about his daughter, Ivanka Trump, and her husband, Jared Kushner, taking roles in the White House and blurring the lines in terms of benefitting their own businesses. Journalist Jill Abramson (2018) of the *Guardian* argues that nepotism and corruption are integral to Trump's presidency. This is a complicated situation since, arguably, Trump was in part elected because of his business skills, which have included drawing on the family resources around him. The issue here is the strength of the safeguarding systems in place to prevent exploitation of power and the promotion of personal family members at the cost of those who may be better skilled. This is an entirely normal (though still problematic) phenomenon in family businesses (Firfiray et al. 2018), for example, but is widely considered unacceptable in the choices made by the 'leader of the free world'.

Whatever the rights and wrongs of the conflation of business and political interests such as these, it makes obvious the problems that can arise when we have politicians who are entitled to set the rules of the economic game while also acting as players in the game. If a company or an industry is able to influence and manipulate the rules towards its own interests, this potentially violates the principle of justice, most notably the notion of procedural justice. This particular notion of justice underlies the set-up of modern democracies, since it focuses particularly on fairness and equality in the treatment of parties involved in the political process. Democratic institutions are tailored towards the representation and the pursuit of the interests of all members of society and not just towards those with the most economic power.

THINK THEORY

Consider the principle of procedural justice in the context of the 'revolving door' between business and government. Are there ways to make these types of appointments fairer from a procedural justice point of view?

Visit the online resources for a suggested response.

CORRUPTION OF GOVERNMENTAL ACTORS BY BUSINESS

So far, we have been discussing forms of business influence on government that, although they may sometimes be in the grey areas of business ethics, are legal in most countries. However, a more extreme form of business influence that occurs quite widely, but tends to be more often classified as illegal, is the direct payment by business of bribes to, and their acceptance by, government officials. Where this is intended to 'buy' a favourable influence on regulation, we refer to it as **corruption**.

Corruption Practices by individuals or organizations that lead to the abuse of entrusted power and authority for private gain.

The offer of bribes and other forms of corruption to gain influence over politicians is a major problem in many parts of the world and many sectors. When talking about government corruption in relation to business, we are mainly concerned with activities where private firms shape the formulation, implementation, or enforcement of public policies or rules by payments to public officials and politicians. In a certain sense, corruption is the most direct, private, and straightforward way of influencing governments.

Before proceeding to think about this business perspective, it is worth pausing to remember that politicians and civil servants can only be corrupted if they are corruptible. That is, two parties are culpable where there is corruption—the payer of the bribe and its recipient; where the majority of the blame lies would need to be assessed in each transaction. Research on Brazil proposes some useful suggestions on how it might be that corruption becomes part of an unwritten code among the political elite, which normalizes the acceptance of corporate and other interference in the political process by emphasizing loyalty and solidarity among them. We have already seen the challenges that whistleblowers face, in Chapter 4; imagine the pressure not to speak out about corruption when you are part of the political elite, some of your colleagues are sanctioning the accepting of bribes by their actions, and you are all in the public eye. Baquero (2015: 142) argues that public corruption is made possible not just by the direct financial benefit to individuals, but by:

1. The benefits for the network of members of the political elite
2. A distance between the elites and citizens
3. The emergence of personal scapegoats who take the blame for individual corrupt acts when the whole system is culpable
4. A pact of silence, which is necessary to preserve the system.

Calling out corrupt practices by those in elite positions is a high-risk strategy for the individual, and perhaps explains why it is usually in the transition to a new government that attempts are made to clean up the system from the side of the political elite. An example here is in South Africa where Cyril Rhamaphosa (whose own record as a business person and politician is not unblemished), in his first speech as President in 2018, promised to 'turn the tide of corruption . . . [and] put behind us the era of diminishing trust in public institutions and weakened confidence in our country's public leaders' (Cotterill 2018). Keep in mind, though, that in democratic countries at least, voters can have a say over who their political leaders are, even if indirectly. In 2018, Spain's then Prime Minister, Mariano Rajoy, lost his position as a result of a vote of no confidence by the members of the national parliament in his leadership and allegations against his party as being corrupt. Leaders of corporations, on the other hand, are not elected representatives of the people, but hold an executive role as agents of shareholders.

11

As we introduced in Chapter 9, the international anti-corruption pressure group, Transparency International, produces an annual Corruption Perception Index (CPI), a listing of different states and the degree to which their public officials and politicians are perceived to be susceptible to corruption. Some highlights of the 2017 CPI are shown in **Table 11.1**.

Table 11.1 Corruption Perception Index (CPI) for top and bottom 30 countries

Top 30 rank	Country	CPI score	Bottom 30 rank	Country	CPI score
1	New Zealand	**89**	151	Nicaragua	**26**
2	Denmark	**88**	151	Uganda	**26**
3	Finland	**85**	153	Cameroon	**25**
3	Norway	**85**	153	Mozambique	**25**
3	Switzerland	**85**	155	Madagascar	**24**
6	Singapore	**84**	156	Central African Republic	**23**
6	Sweden	**84**	157	Burundi	**22**
8	Canada	**82**	157	Haiti	**22**
8	Luxembourg	**82**	157	Uzbekistan	**22**
8	Netherlands	**82**	157	Zimbabwe	**22**
8	United Kingdom	**82**	161	Cambodia	**21**
12	Germany	**81**	161	Congo	**21**
13	Australia	**77**	161	Democratic Republic of the Congo	**21**
13	Hong Kong	**77**	161	Tajikistan	**21**
13	Iceland	**77**	165	Chad	**20**
16	Austria	**75**	165	Eritrea	**20**
16	Belgium	**75**	167	Angola	**19**
16	United States of America	**75**	167	Turkmenistan	**19**
19	Ireland	**74**	169	Iraq	**18**
20	Japan	**73**	169	Venezuela	**18**
21	Estonia	**71**	171	Korea, North	**17**
21	United Arab Emirates	**71**	171	Equatorial Guinea	**17**
23	France	**70**	171	Guinea Bissau	**17**
23	Uruguay	**70**	171	Libya	**17**
25	Barbados	**68**	175	Sudan	**16**
26	Bhutan	**67**	175	Yemen	**16**
26	Chile	**67**	177	Afghanistan	**15**
28	Bahamas	**65**	178	Syria	**14**
29	Portugal	**63**	179	South Sudan	**12**
29	Qatar	**63**	180	Somalia	**9**

Source: Adapted from 2017 Corruption Perception Index. Copyright 2017 Transparency International: the global coalition against corruption. Used with permission. (CC-BY-ND 4.0)

11

As the CPI shows, government officials in democratically and economically stable countries such as New Zealand, Denmark, Finland, and Norway are among those perceived to be least susceptible to corruption, while countries with ongoing acute conflict, high levels of poverty, and failed institutions, such as Afghanistan, Syria, South Sudan, and Somalia, score very low. However, it is not just poverty (as some contend) that influences a country's place on the scale.

In light of the above, the ethics of corruption probably should be beyond much doubt. However, the dilemma for corporations in highly corrupt countries seems to be largely unavoidable. One might argue that when so many economic actors effectively 'buy' public officials, it becomes a necessity for all businesses to do so. This argument, however, leads us directly into the controversy about ethical absolutism and relativism that we introduced back in Chapter 3 and which has arisen a number of times throughout this book. In **Ethics in Action 11.1** we see an illustration of the price paid by citizens in a corrupt regime. In a personal account of research on the recovery process in response to hurricanes and other extreme weather events, Juliet Sorensen and Elise Meyer show how corruption slows down the process of rebuilding and recovery in disaster-struck areas. They show that corruption is far from being a victimless crime; it has real impact far beyond the political elite and corporations that it most immediately concerns.

Ultimately, from the perspective of Western democracies, endemic corruption is beyond what we would regard as an ethically acceptable situation, given the corrosive effects of corruption on societies. Moreover, if instead of the rule of law there is the rule of the most powerful corporations, then individual business is subject to governmental arbitrariness and despotism. When property rights are not guaranteed, and contracts are not reliable, business ultimately becomes very difficult and uncertain (Hellman and Schankerman 2000). From an ethical theory perspective, this is a good example of Kant's theory; most notably the first part of the categorical imperative test: if state capture becomes a 'universal law', a normally functioning economy becomes nearly impossible.

THINK THEORY

Corruption has also been addressed from the perspective of consequentialist theories. How would these apply to state capture as discussed here?

Visit the online resources for a suggested response.

ETHICAL ISSUES IN THE CONTEXT OF PRIVATIZATION AND DEREGULATION

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If corruption sometimes represents situations where business can dictate certain aspects of government policy, then privatization takes us into a situation where government effectively cedes responsibility for the provision of certain goods and services to business completely. Privatization occurs where state ownership of an entity reduces, and that which has been publicly controlled becomes privately controlled through, for example, the selling off of shares and/or takeover by a private company. For governments, it achieves the generation of capital; for corporations, it is a business opportunity and it is in line with those who support reduction in

Ethics in Action 11.1 How corruption slows disaster recovery

Juliet Sorensen and Elise Meyer
The Conversation, 5 June 2018

The 2018 hurricane season has now begun. It's a good time to think about lessons learned from last year's historic storms. Hurricane Irma, which raged across the Caribbean from late August to early September 2017, was the strongest Atlantic hurricane since record keeping began in 1851. In total last year, six major storms were Category 3 or greater, making 2017 the seventh most-active year in history and the costliest ever. The Center for Disaster Management and Risk Reduction Technology, a German research institute, estimates that reconstruction on the islands hit by Irma alone will cost at least US$10 billion.

But having recently completed a months-long human rights analysis on the aftermath of last year's deadly hurricane season, we believe that's a low estimate. Our research identified another cost contributing to the challenges of rebuilding: corruption.

Devastation in Sint Maarten

We visited the Caribbean island of Sint Maarten, which is part of the Netherlands, in February. Hurricane Irma's destruction was still apparent. Massive trees had been ripped out of the ground and toppled, their roots exposed. Vehicles and debris were scattered across the landscape. Marinas, a key infrastructure for this 14-square-mile island, were left in ruins, littered with the stranded remnants of boats that had smashed onto shore. Amid such chaos, clean-up and rebuilding after an extreme weather event becomes urgent. And urgency, we found, breeds opportunities for corruption.

Government malfeasance is already prevalent in Sint Maarten, which has relatively lax regulation and a cash-fuelled economy driven by tourism and casinos. The influx of reconstruction funds after Hurricane Irma created new opportunities for graft (hard work). Local authorities told us, for example, that the initial days of debris clean-up in Sint Maarten involved over 1,000 workers, paid hourly, but only eight supervisors. Our interviews indicate that the scant oversight enabled fraudulent inflation of reported hours, wasting vital government funds on work left undone.

The Dutch government, which offered Sint Maarten $641 million in relief after Hurricane Irma, was concerned enough about misappropriation that it insisted on certain anti-corruption safeguards. They included establishing an 'integrity chamber' to receive and investigate complaints about corruption on the island. Sint Maarten's prime minister refused to accept the funds under such conditions and, in November, resigned in the ensuing scandal. Eventually, Sint Maarten's government bowed to Dutch demands. The first instalment of relief funding, managed by the World Bank, was released to the island in April, seven months after the hurricane devastated the island.

Corruption kills

Corruption in Puerto Rico may have actually contributed to Hurricane Maria's high death toll. While the government's official tally is 64 storm-related deaths, a recent study puts the figure closer to 4,600—in part because a prolonged blackout prevented many Puerto Ricans with chronic illness from getting necessary medical care.

After Hurricane Maria knocked out the island's electric grid, the island's power authority awarded a $300 million contract to the Montana-based company Whitefish Energy to repair it. The bidding process soon came under suspicion because it was clear that the company, which had just two employees, could never complete the task. The U.S. House Committee on Natural Resources opened an investigation and the Whitefish contract was cancelled. After $3.8 billion in federal aid for the power grid, some 11,000 Puerto Ricans are still without electricity. Officials say even a mild hurricane could disable the grid again.

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We believe progress would have been quicker if Puerto Rico's first big energy contract had been correctly executed. After a disaster, corruption can literally kill.

Unaccountable donors

In the Caribbean, a developing region where some governments may be too small and cash-strapped to lead a wholesale recovery effort, corruption after natural disasters may be compounded by a lack of transparency among the international donors and humanitarian organizations that rush in to help. After Haiti's 2010 earthquake, for example, an unprecedented $13.5 billion in aid money flowed into the island—more than double its gross domestic product. Much of this money never made it to those who needed it. A 2011 study by US researchers found that only 44% of Haitians affected by the quake received any aid at all.

According to a comprehensive analysis by the Center for Global Development, Haiti's government received just 1% of humanitarian aid and perhaps 15% to 20% of longer-term relief aid. The rest was channelled to charities and nongovernmental organizations, whose resulting projects were, in many cases, impossible to identify.

Time to get ready

The United Nations, which also offers valuable guidance on fighting corruption in its 2005 Convention Against Corruption, will soon launch an anti-corruption initiative offering tools catered towards small island developing states like those in the Caribbean.

Our work also identified several ways that Caribbean countries could limit how corruption harms future hurricane recoveries. Better disaster preparedness—including building code compliance, zoning enforcement in exposed locations like beaches and hillsides, and transparent, well-resourced disaster-response teams—would reduce turmoil after extreme weather. That, in turn, would minimize opportunities for the kinds of chaos-related corruption we documented across the Caribbean. Island nations might also consider banding together for the purpose of receiving, dispersing, and tracking relief funds, as Indian Ocean nations did after the region's 2004 tsunami.

The European Commission created a similar task force in 2013. Today, European countries aren't left scrambling to respond when disaster strikes. Instead, the Emergency Response Coordination Center monitors the disaster, continually poised to offer expertise, relief funding, and first responders as needed across the continent.

Scientists predict that hurricane activity this year will likely be above average due to climate change. For the Caribbean, preparing for extreme weather means being ready for the human-made disasters that can follow it, too.

SOURCES

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QUESTION

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Corruption is often criticized on the basis of non-consequentialist thinking. However, the case of corruption in disaster recovery can also be examined from the perspective of consequentialism. How would a utilitarian assess this situation and what does this tell you about the moral acceptability of corruption?

Visit the online resources for web links to useful sources of further information.

government control. Whether it benefits consumers is a moot point, but some argue that the private sector is better placed than government to run efficient operations and competition by requiring the breaking up of monopoly suppliers. Although we would not want to suggest that privatization raises the same kind of fundamental ethical problems as corruption, there are a number of issues and dilemmas that we need to address.

Starting in the US and the UK during the 1980s, the world has experienced a strong move towards privatization of public industries such as public transport, postal services, water, education, healthcare, telecommunications, and utility supply. This development coincided with, and was partly due to, quite substantial deregulation of certain industries and markets. This deregulation led to a situation where private businesses were allowed to enter industries that formerly were dominated, if not totally controlled, by public organizations. Similar developments took place later in the rest of Europe, Australasia, and Latin America, and are still ongoing in many developing countries (Estrin and Pelletier 2015). Although different in nature, the fall of the iron curtain propelled the major state-owned companies of Eastern Europe and the former Soviet Union into the privately owned capitalist system, entailing more or less similar consequences.

The common perception of state ownership is that large public service monopolies tend to be inflexible, bureaucratic, and typically deliver average quality at high costs. So, for instance, the owner of Capita, one of the major private sector companies to have taken over provision of administrative services in the UK public sector service, boasted that it took his company seven hours to reach a decision that would have taken seven weeks in the civil service.[9] Such increased efficiency claims contrasts with ethical concerns about the price that workers ultimately pay, with claims of the 'terror of neoliberalism' by commentators such as Henry Giroux. This takes formal shape in restrictions on loans from the International Monetary Fund and the World Bank, which fund privatization programmes which require downsizing of employee numbers, increased flexibility to layoff or fire employees, and cuts in wages, pensions, and social security (Giroux 2017). In the case of the recent rise in water privatization, the ethical issues are also tightly bound up with this fundamental resource, given that access to water and sanitation are basic human rights, and the increasing environmental imperative around water shortage (Ziegler and Groenfeldt 2017).

It is reasonable to say that the results of the process of privatization have been mixed, ethically, socially, and commercially (Van Tulder et al. 2016): while some of the privatized companies and industries, especially in the area of telecommunications and utilities, have been quite successful, other privatized corporations struggle and have not been able to provide reasonable quality and profitability. The picture is even more mixed from an ethical point of view. Let us consider some of the common issues:

- **Privatization profits.** Considerable debate has taken place about the price at which formerly public companies should be 'sold' to private owners. If too high a price is charged, the new owners may feel exploited if their investment subsequently attracts a far lower valuation than their initial investment. For example, when Deutsche Telekom (owner of the T-Mobile brand) was privatized, the share price immediately sank dramatically below the price of the initial public offering (IPO), thereby infuriating shareholders. If too low a price is charged, a small group of investors taking over a former public utility might end up making huge profits on what were essentially public assets that ultimately belonged to the taxpayer. For instance, privatizations in Russia during transition resulted in super-rich oligarchs and an impoverished state and citizenry. Apart from the fact that

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stock-market prices ultimately are not predictable, a key ethical challenge in privatizing state-owned companies is to find a *fair price.*

- **Citizens turned consumers.** Postal services and public transport—to name just two examples—were originally under the care of governments because these services were considered a component of the social entitlements of citizens. One reason the state became involved in such services was to ensure that provision of basic services was supplied to all, regardless of where they lived or the cost of providing the service. However, a privatized postal service might argue that it cannot run a post office in rural Lapland or a Himalayan mountain village because there are only a few families in the village. It has to take these decisions on an economic rather than a political basis—which may mean that these families will no longer have a post office or bus service. In the absence of regulation, these issues typically cause controversy and confront corporations with difficult ethical dilemmas.
- **Natural monopolies.** Telecommunications, railways, water, and other utilities that deliver their services via networks—be they cables, rails, or tubes—cannot easily be privatized and opened up to competition because of the degree of integration that is necessary for them to function effectively. To give a simple example, it is technically and economically infeasible for a new rail company to build a new rail network next to a competitor's. For this reason, such industries are sometimes called *natural monopolies*. Generally, under the privatization of natural monopolies, access to and prices for using such networks are largely determined by governmental policy. However, experience shows that corporations may exploit this situation by either overcharging customers or delivering poor quality.

Next to full-on privatization, there has also been considerable debate about *public–private partnerships* (PPPs). The central idea of PPPs is that the government is still responsible for a considerable part of the project, while private companies bring in the investment. PPPs have been especially popular in the UK and Australia, while thousands of PPPs have also been documented in developing countries (Rufín and Rivera-Santos 2012). Well-known examples include the London Crossrail project, the Sydney Harbour tunnel, and India's Bangalore International Airport.

The performance of PPP projects, though, remains in question, with evidence suggesting mixed results so far on their effectiveness (Hodge and Greve 2007). In the UK, where PPPs have been extensively used for decades (most recently under the label of the Private Finance Initiative), a Treasury Committee report commissioned by the government found the initiative 'has the effect of increasing the cost of finance for public investments relative to what would be available to the government if it borrowed on its own account.' The general result seems to be that, although PPPs can speed up infrastructure development and expand the range of finance possible, the profit maximization rationale of the private sector can dominate PPPs at the expense of quality and value for money for the public. In addition, one of the key ethical challenges here is that PPPs often lack the kinds of reporting to the general public that would 'achieve accountability for public money that is increasingly spent in the private sector' (Shaoul et al. 2012).

Regardless of the possibility of raising ethical problems, it would appear that privatization, deregulation, and public–private partnerships are likely to continue to be a major feature of the economic landscape for firms, whether at home or further afield in developing countries. As this shows, governments are increasingly recognizing that new regulation is sometimes necessary to manage the involvement of private actors in providing public services. Moreover, as we shall now see, such developments are also part of a broader shift in relations between the state and business that has arisen from the process of globalization.

GLOBALIZATION AND BUSINESS–GOVERNMENT RELATIONS

In Chapter 1 we defined globalization as 'the ongoing integration of political, social and economic interactions at the transnational level, regardless of physical proximity or distance'. Globalization thus has created a new space for the types of interactions between business and government that we have discussed so far in this chapter. To a large extent, these interactions can be conceptualized in terms of what is often referred to as global governance—namely the management of international affairs, whether social, economic, ethical, or environmental, by various actors including (but not limited to) government.

The concept of global governance contrasts with how we might traditionally think about business–government relationships, where the governance of business was typically focused at the level of the nation state and was restricted primarily to governments setting and enforcing the rules for business. What we have seen throughout the book, though, is that the need to regulate and enforce ethical business behaviour clearly transcends national borders, as the examples of financial markets, the internet, or climate change illustrate quite vividly. Conspicuously then, it is often multinational corporations and CSOs rather than just national governments that get involved in governing business behaviour at the global level (Detomasi 2015). As we have seen in Chapters 9 and 10, these additional actors in the realm of global governance participate, not just through conventional imperative regulation, but also through forms of private regulation that involve various rules, standards, and norms.

Global governance The management of economic, social, ethical, and environmental issues beyond national borders through rules, standards, and norms. It involves governments, international organizations, civil society, and business.

One consequence of globalization is that it begins to change the roles of government and corporations. In the national context, governments are in the politically dominant position, since they hold the authority to govern business. In the global context, though, many argue that companies have gained significant political power (Wilks 2013). The main reason for this is not so much that they find themselves in a position where they could wilfully violate national regulation. Rather, it is based on a phenomenon that luminary sociologist Ulrich Beck (1998) described as the 'corporate power of transnational withdrawal', namely that in a global economy, corporations can quite easily threaten governments that they will relocate to another country if certain 'undesirable' regulations—such as health and safety standards—are enforced. As national governments depend on corporations in terms of employment and tax payments, this situation puts companies in a position of relative power. Another source of political power of companies, however, is based on the fact that many multinationals have considerable economic power of their own. Corporations can have a substantial influence on global developments simply because of their size, scope, and resources.

The consequence of these changes is that business finds itself in a situation where it is still operating within the traditional national context, as well as being a key actor at the global level. This leads to four distinct constellations where business–government relations have been transformed through globalization, which we will discuss in the remainder of this section.

BUSINESS AS AN ACTOR WITHIN THE NATIONAL CONTEXT

Businesses are still located within nation states and they are, therefore, still subject to national imperative regulation. As we have already noted, globalization has weakened governments' ability to impose imperative regulation, as companies have ample opportunity to escape national rules. A powerful example is the spate of tax scandals in the mid-2010s around US companies such as Amazon, Apple, eBay, Facebook, Google, and Starbucks who were found substantially reducing, if not eliminating, tax payments in some of their European subsidiaries. In response to this skirting of tax payment by primarily digital companies, the EU designed a digital tax (nicknamed the Gafa tax after Google, Amazon, Facebook, and Apple), by which there would be a 3% tax if companies make money from user data or digital advertising in a country, irrespective of their bricks-and-mortar presence. The tax would also apply to other online market places that make money through user data, such as Airbnb and Uber (Rankin 2018).

As with all general trends, there is of course considerable variation. In general, the ability of governments to use the more traditional imperative regulation remains powerful in areas where companies do not dispose of strong internationalization options (Rugman and Verbeke 2000). Furthermore, the increase in transnational regulation still results in a considerable increase in imperative regulation at the national level. Governments are responsible for the national implementation of, for instance, the Paris Agreement on climate change or certain EU directives. Since these treaties apply to many countries simultaneously, the power of transnational withdrawal for companies is certainly limited.

BUSINESS AS AN ACTOR WITHIN THE NATIONAL CONTEXT OF AUTHORITARIAN/OPPRESSIVE REGIMES

Considering business–government relations in the context of globalization, it is necessary to also highlight situations where business becomes an actor in authoritarian and oppressive regimes. Recent discussions of this issue have focused on countries such as Zimbabwe, Russia, China, Myanmar, and Sudan. The crucial ethical dilemma here is that multinationals that want to operate in these countries have to collaborate to a certain degree with the regime. Industry-led programmes, such as the Global Network Initiative,[10] seek to build a framework for effective protection of human rights online.

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Next to collaborating, multinational presence in these countries can also be said to contribute to the economic stability and wealth of the existing regime. Therefore, even without directly collaborating with the regime, the presence of Western companies can be deemed to be contributing to their support. With the rise of multinationals from India, China, and Brazil, finding an ethical approach is by no means uncontroversial, as the case of Sudan, and its government's alleged human rights abuses in the mid-2000s in Darfur, has shown. While many Western pension funds started to divest in companies involved in Sudan and many companies pulled out of the country, the vacuum was filled by other players with less-favourable approaches to human rights, such as Chinese companies (Ethical Corporation 2006).

As Nien-hê Hsieh (2009) argues, multinationals in those contexts have a duty to contribute to the establishment of background institutions that normally protect human rights in democratic systems. He points to a number of areas where multinationals have a moral duty to become involved:

- Upholding human rights through normal business operations. This argument was used specifically in the historic case of multinationals in apartheid South Africa in the 1970s and 1980s, where, in particular, multinationals from the US refused to adopt the apartheid rules in their own operations.
- Contributing to economic development. As we have seen in the context of corruption, there is some form of link between poor governance and poverty. By operating in a developing country, a multinational can bring wealth and economic development to the country. This would also include multinationals becoming involved in providing education, infrastructure, or healthcare to the communities in which they operate.
- Direct involvement in creating background institutions for good governance. Companies such as Statoil in Venezuela or BP in Azerbaijan have run or sponsored programmes to train local judges or police officers in human rights and good governance. This might also include the encouragement of workers to join or found trade unions and other CSOs.

THINK THEORY

Reflect on the role of Western multinationals operating in oppressive regimes and countries with poor governance. What argument, based on one or more of the ethical theories in Chapter 3, can you make in favour of an obligation for multinationals to build fair background institutions in those countries?

Visit the online resources for a suggested response.

BUSINESS AS AN ACTOR IN THE GLOBAL CONTEXT

At a global level, we argued earlier that corporations assume a more dominant role, while governments—bound by their confinement to territorial boundaries—have only limited influence beyond national boundaries. The central ethical problem here is that business can find it easier in less-developed countries than in Western democracies to negotiate about tax levels, standards for environmental, health, and safety protection, or human rights. As we saw in Chapter 1, the result of this process is the so-called 'race to the bottom' between developing countries, trying to attract foreign investment by offering ever lower standards of social and environmental protection (Scherer and Smid 2000).

Popular sentiment seems to be that this deterioration in standards is a real issue (e.g. Hertz 2001b; Klein 2007), and some empirical evidence has supported the general hypothesis (e.g. Davies and Vadlamannati 2013). However, it is by no means uncontroversial (e.g. Rugman 2000). While some argue that there is an equally compelling case for a 'race to the top' in adopting standards (e.g. Saikawa 2013), others also point to the fact that multinationals in developing countries have a positive influence on standards. So, for instance, Christmann and Taylor (2001) argue that multinationals in China actually improve environmental performance, since they introduce their environmental management systems (such as ISO 14000) in their Chinese subsidiaries. And Elizabeth DeSombre (2008) suggests that there is a 'race to the regulatory middle' in shipping, in terms of labour standards and environmental regulations, where nation states with high regulatory standards tend to relax them, and those with low regulatory standards are persuaded by a variety of mechanisms to improve them. Globally, shipping regulation then ends up in the middle ground.

This identification of directions of travel of effective regulation leads to an interesting observation. Although governments in developing countries may be unlikely to provide 'imperative' regulation that forces companies into more ethical behaviour—either because they do not dare or do not care—we increasingly witness that business itself assumes an active role in setting up certain types of regulation. We will have a closer look at these regulatory innovations in the next section as they are very closely linked to the corporate role as a citizen in civil society.

BUSINESS–GOVERNMENT RELATIONS IN INTERNATIONAL TRADE REGIMES

Despite the general point we made that governmental power at the transnational level is rather limited, there are a number of transnational governmental institutions that have quite a significant influence on business. These can be regional bodies (such as the European Union (EU), the North American Free Trade Agreement (NAFTA), and the Association of South East Asian Nations (ASEAN)), or global players (such as the World Trade Organization (WTO) and the World Bank). The general role of these bodies is to enable trade and exchange of goods and services. For business, this can be a double-edged sword. On the one hand, such bodies may enable firms to access cheap labour, reach larger markets, and pursue other new opportunities. At the same time, these institutions increase competition and in some ways limit business, especially those outside the respective regional space. It is therefore no surprise that the regular meetings, for instance of the WTO, in which new regulation is discussed, are heavily lobbied by business, which often even has a direct mandate to take part in these negotiations (Woll and Artigas 2007).

One of the most influential regional bodies is the EU, as quite considerable legislative powers have been delegated from the member states to EU level. This not only concerns a lot of regulation on health, safety, and the environment, but the EU Commission is particularly active in making sure that fair competition is upheld in European markets for goods and services. This becomes particularly visible in the case of mergers and acquisitions, where the EU has a legacy of forbidding many planned mergers for fear of creating monopolies in certain markets.

CORPORATE CITIZENSHIP AND REGULATION: BUSINESS AS KEY PLAYER IN THE REGULATORY GAME

As we have seen in this chapter, the situation for companies is that imperative regulation at the national level remains important, but has decreased in intensity, while transnational regulation is still limited but has intensified. These transitions, coupled with concerns about 'over-regulation' stifling business innovation, have led to a fertile debate about how to improve the rule-making process governing social and environmental issues in business.

As we have explained, the central idea in private regulation is that private actors, such as corporations and CSOs, are involved in setting up rules and systems of monitoring and enforcement rather than these being solely in the hands of government. A typical example here is the regulation of financial markets in many countries, such as the UK, where this is handled by the Financial Conduct Authority—a self-regulating industry body rather than a government organization. Much of this regulation is voluntary, in that business gets involved in these regulatory processes, not because they are forced to do so by government, but because they see it as being in their own self-interest (Van Calster and Deketelaere 2001). Private regulation might, therefore, be regarded as 'softer' and more flexible since it can adjust reasonably easily to new circumstances, issues, and actors (Martínez Lucio and Weston 2000), and is frequently based on market mechanisms rather than hierarchical authority.

As Orts and Deketelaere (2001) point out, the greater involvement of companies in regulation is foremost a European approach, and one that has only fairly recently been adopted in other parts of the world and, most notably, on the global level. This collaborative approach has a long tradition in Europe and is often referred to by the term 'corporatism' (Molina and Rhodes 2002). In particular, then, it has been countries such as France, Germany, and the Netherlands that have been among the early adopters of this approach since the 1970s, though it has become considerably more widespread since then. A corporatist approach accepts the legitimacy and inevitability of both market forces and state involvement in regulation and seeks to formalize—and thereby limit and regulate—these as legitimate representation rather than to push them behind the scenes.

There are a number of reasons why these forms of regulation have emerged. According to van Calster and Deketelaere (2001), the main goals for those trying to introduce new types of rule-making in this area are:

- **Encouragement of a proactive approach from industry.** Industry as an addressee of regulation (and hence the one that has to adapt to it) has typically been integrated rather late into the rule-making process—if at all. This means that governmental regulation has not always offered much encouragement for business and has not usually been very enthusiastically welcomed by companies. Self-regulation, therefore, has tried to encourage earlier and more proactive engagement from industry in the rule-making process, and has tried to make more use of the market to encourage ethical behaviour.
- **Cost-effectiveness.** Another goal of private regulation is to cut down on bureaucracy and costs on the part of government. To give an example: rather than telling companies which technology to use, or to measure the emissions at every single smoke stack, the introduction of a limited amount of tradable emission certificates for a certain industry has the same result without the costly administration and compliance control.
- **Faster achievement of objectives.** The average time for a proposal to be adopted by the EU is two years, followed by another two years for transposition by the member states. One of the motivations to change the regulatory process is to shorten this time lag. When engaging industry in regulation, the assumption is that the aims are attained faster, since it offers a shortcut through the different institutions.

Figure 11.3 Players in the regulatory game and selected examples of private regulatory efforts

Figure 11.3 provides an overview of the changing field of regulation affecting business. It is based on Figure 10.1 in Chapter 10, which depicts the three main institutional sectors in society—government, business, and civil society. Figure 11.3 shows the relevant actors in each sector and gives some typical examples of the regulatory processes they are involved in. We have shaded the business sphere because this is the area that relates specifically to business involvement in private regulation.

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GOVERNMENTS AS REGULATORS (SEGMENT 1)

First of all, we find governmental bodies as key actors in regulation. As we indicated earlier in this chapter, imperative regulation by government is still quite widely practised. This certainly applies to *national* governments, and while there is still some debate about the power and future of nation states, it is certainly evident that the regulatory power of nation states, although diminished by globalization, will continue to be a significant influence on business

(Taplin 2002). An example of a reinvigorated appetite of nation states to regulate business is the 2010 Dodd–Frank Act in the US—which we discussed in Chapter 6 (section 'Reforming corporate governance around the globe')—as a reaction to the financial crisis of the late 2000s. But we see this appetite also in the area of law enforcement where, for instance, the EU Commission in recent years has significantly enhanced its scrutiny of antitrust behaviour in a number of industries, most notably pharmaceuticals (Esposito and Montanaro 2014). The ongoing EU anti-trust investigations against Google and other technology companies are just another example of this trend. Despite being fined €2.4 bn in 2017 by the EU, Google was again under threat of a record-breaking fine in 2018 for abusing its market dominance in software that runs on its smartphones (Reuters 2018).

What we see, then, is a growing importance for governmental bodies above the national level (sometimes called the 'supranational' level), such as the EU, treaty systems such as NAFTA, or supranational bodies such as the G20. However, if we analyse the role of governmental organizations with global scope, such as the UN or the OECD, these organizations lack efficient mechanisms for sanctioning non-compliance with their regulation. An example is the ongoing efforts of the G20 to crack down on tax havens, which have proven largely ineffective so far (Johannesen and Zucman 2014). Exceptions, however, are the World Bank and the IMF (International Monetary Fund), since they have the power to either grant or withdraw considerable amounts of money to/from developing nations, and through this, also have considerable leverage on companies doing business in these countries.

SELF-REGULATION BY BUSINESS (SEGMENT 2)

In discussing the roles of various actors in the field of regulation, it is apparent that the roles of business and government have increasingly become intertwined. The amount of regulation exclusively set by government is shrinking, as is the share of regulation that is exclusively set by business.

However, as we have seen throughout this book, there are still a considerable number of rules and norms that corporations set for themselves (and for other corporations), such as the codes of conduct introduced to govern business behaviour, or the social and environmental rules imposed on local subsidiaries and suppliers by large corporations.

One typical form of self-regulation which works as a direct counterpart to governmental regulation is collective agreements or commitments by industry—often sectors of industry—that are intended to avoid, forestall, or soften potential laws: so, for instance, in order to avoid costly and restrictive regulation in the realization of the national goals for carbon dioxide reduction, the Confederation of German Industry (BDI) committed itself to the reduction of greenhouse gases far beyond the level originally requested by the government (Eberlein and Matten 2009). Unfortunately the commitment to reduce greenhouse gases by 40% by 2020 compared with 1990 levels may not be met, as 2017 figures suggested that only a reduction of 27.6% had been achieved. Despite being a world leader in renewable energy and improvements in vehicle efficiency, the growth in the economy and increased in traffic on the roads are countering the improvements in technology (Chazan 2017). On top of this, as we saw in **Case 4**, companies such as Volkswagen were found to be systematically falsifying the diesel emissions of their vehicles to indicate that they met US standards when in practice they did not. While there are many reasons for this, aggressive target-setting and agreement by the industry itself could be one of them.

More often, we observe new business-driven regulation on the global level with the main purpose of addressing the vacuum created by the absence of authoritative governmental oversight. One of the most long-standing examples is probably the Responsible Care programme.[11] This was initiated by the International Council of Chemical Associations (ICCA), which is the industry confederation of major national chemical industry associations. Responsible Care began as a response to the devastating chemical-related disasters in Bhopal, Basle, and Seveso in the 1980s, and was adopted by the ICCA in 1991. A Responsible Care Global Charter was published in 2006 and revised after a bumpy start in 2014. The Global Charter prescribes in quite some detail a large array of measures, practices, and policies relating to corporate leadership culture, safeguarding people and the environment, strengthening chemical management systems, influencing business partners, engaging stakeholders, and contributing to sustainability. Member firms of the industry's national associations have to adopt these measures in order to be allowed to use the Responsible Care logo. As of 2017, the chemical industry associations of 60 countries worldwide had adopted the programme, thereby making its implementation for member firms mandatory.

An equally important standard that has been developed by industry is the ISO 14000 standard series of the International Standard Organization in Switzerland.[12] These standards basically accredit environmental management systems for business as a way of setting rules for good practice in environmental management (Tarí et al. 2012). This is the most widely implemented environmental standard on a global level, mainly due to the fact that many corporations, especially multinationals, specify ISO 14000 certification for their suppliers (To and Lee 2014). The outcome of these standards, however, is by no means uncontested. Since many such standards, most notably ISO 14000, do not prescribe outcomes rather than management processes, research has cast doubt on their real effectiveness (Castka and Corbett 2015; Delmas and Montes-Sancho 2011).

The ISO standards are a good example of how regulation and governance are changing. More recent standards, most notably ISO 26000 on social responsibility, show that business self-regulation gains legitimacy when it is drawn up in collaboration with governments and civil society groups—which we will discuss in the next section. In fact, where business engages in pure self-regulation, the literature is somewhat ambivalent about the likely benefits (e.g. Castka and Corbett 2015; King and Lenox 2000). These approaches seem to have worked primarily in situations where corporate self-interest would suggest these measures anyway. So, for instance, the self-commitment of the German industry to reduce carbon dioxide emissions was initially easy to fulfil because large producers of these gases in East Germany were about to close down anyway in the early 1990s (Eberlein and Matten 2009).

REGULATION INVOLVING BUSINESS, GOVERNMENTAL ACTORS, AND CSOS (SEGMENTS 3, 4, 5, AND 6)

The design and implementation of regulation across sectors, whether at regional, national, or transnational levels, has become increasingly common. Although multi-sector co-operation is, in itself, not entirely new, it is the emergence of multi-sector initiatives to enact *global governance* that is most notable here. As David Detomasi (2007: 321) puts it, 'the strengths of state, market, and civil society actors combine to create an effective international governance system that overcomes the weaknesses afflicting each individually'. Typically, the main instruments used in such networks to regulate the social, ethical, and environmental impacts of business are codes of conduct and systems of monitoring and enforcement. We have already discussed these at some length in Chapter 5, including questions of effectiveness and the plausibility of developing worthwhile global codes of ethics. Nearly all large global governmental and multi-partite organizations, such as the UN, the OECD, the ILO (International Labour Organization), the FAO (Food and Agriculture Organization), and the WHO (World Health Organization), have issued codes intended to provide some degree of rule-setting for corporations in areas beyond the control of the nation state. There is such a rapidly expanding number of codes that it is hardly possible to provide a complete overview of this mushrooming field of regulation. Even a decade ago, in one study of codes relevant to multinationals, Fransen and Kolk (2007) identified almost 50 corporate responsibility standards, including six from intergovernmental organizations, seven from CSOs, 14 from business associations, and a further 22 multiple-stakeholder standards. This, of course, is in addition to the hundreds of individual company codes operated by companies across the globe. Such CSR codes have only proliferated since then.

It is important to highlight that businesses are not always the leading non-government party in question. In the case of the Olympic movement, as illustrated in **Case 11**, we see an example of how the International Olympic Committee, as an example of an NGO, brings its own private authority and regulatory framework in the form of the Olympic Charter to the Games, which change location every four years. The melding of nation state regulation with the Olympic requirements has a material impact on the social and environmental contexts in which the Games are held (Mangan and Dyreson 2013).

Discussing these new forms of global business governance, two aspects seem worth highlighting. First, we see a growing number of regulatory frameworks where business is clearly stepping into policy fields that have hitherto been more the prerogative of governments. Examples are the Global Business Coalition (which seeks progress in tackling health of their employees in relation to malaria; HIV/AIDS; TB; sexual and reproductive health rights; maternal, newborn, child and adolescent health; nutrition; and non-communicable diseases)[13] or the Guiding Principles on Business and Human Rights[14]—both of which cover what are substantially public policy issues. This reflects what we discussed in Chapter 2 as the new role of business practising an extended view of corporate citizenship.

A second aspect is that a growing number of these global, private regulatory frameworks are no longer just trying to mimic traditional governmental regulation. The ISO 26000 standard on 'social responsibility',[15] published in 2010, is a good example of a number of trends that have been emerging in this space of shared global governance between business, governments, and civil society:

- **Deliberate rather than dictate.** While most standards were drawn up either unilaterally by business, or by business together with some NGOs and governmental agencies, a new generation of standards is characterized by increasing collaboration between all relevant stakeholders. In the case of ISO 26000 this resulted in a nine-year-long process between a host of stakeholders from business, government, and civil society representing not only all relevant constituencies but also all relevant regions of the globe (Balzarova and Castka 2012; Helms et al. 2012). The core goal of such a process is to enhance the legitimacy of the resulting standard.

Ethics in Action 11.2 The UN Global Compact: talking about global regulation

In 2000, the UN launched the Global Compact in an attempt to address the ethical problems linked to corporate activities on a global scale. Rather than pursuing the top-down approach of earlier regulatory efforts, the UN Global Compact starts from the bottom up by working directly with corporations. As it states on the organization's webpage, the initiative 'provides collaborative solutions to the most fundamental challenges facing both business and society. The initiative seeks to combine the best properties of the UN, such as moral authority and convening power, with the private sector's solution-finding strengths, and the expertise and capacities of a range of key stakeholders.' The UN Global Compact has the strategic aim to drive business awareness and action in support of achieving the Sustainable Development Goals by 2030 (see Chapter 1, section 'Sustainability: a key goal for business ethics?').

The UN Global Compact asks companies 'to embrace, support and enact, within their sphere of influence, a set of core values'. These are articulated in ten core principles in the areas of human rights and shown in **Table 11.2**, labour standards, the environment, and anti-corruption.

Companies that want to join have to (a) provide a letter from their CEO indicating a commitment to these ten principles; (b) annually report publicly on the firm's 'Communication on Progress' (COP) in implementing the principles; and (c) make an annual financial contribution to the Compact, depending on the size of the company. In return, companies can participate in Global Compact events and learning networks, use its various tools and resources, and signal to stakeholders that they are participants in the initiative with the 'We Support the Global Compact' logo.

The UN considers the Global Compact to be primarily a facilitator of dialogue and learning between business, government, and CSOs. It achieves this by establishing local networks (such as the UN

Table 11.2 UN Global Compact core principles

HUMAN RIGHTS	*Principle 1:* Businesses should support and respect the protection of internationally proclaimed human rights
	Principle 2: Businesses should make sure that they are not complicit in human rights abuses
LABOUR	*Principle 3*: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining
	Principle 4: Businesses should uphold the elimination of all forms of forced and compulsory labour
	Principle 5: Businesses should uphold the effective abolition of child labour
	Principle 6: Businesses should uphold the elimination of discrimination in respect of employment and occupation
ENVIRONMENT	*Principle 7*: Businesses should support a precautionary approach to environmental challenges
	Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility
	Principle 9: Businesses should encourage the development and diffusion of environmentally friendly technologies
ANTI-CORRUPTION	*Principle 10*: Businesses should work against corruption in all its forms, including extortion and bribery

Global Compact Danish Network, led by Sara Krüger Falk, **Practitioner Spotlight 11**) within individual countries as well as working groups at a global, national, and local level to focus on specific challenges, for instance on the role of business in conflict zones or on business and child labour. Here, multi-partite participants work together to increase capacity to deal with the problem on a concrete business level, often resulting in new, specialized tools, principles, guidelines, or other resources.

As of 2018, the initiative had grown to more than 12,000 signatories, including over 5,000 small and medium-sized enterprises globally. Georg Kell, a former executive director, argued that as a voluntary, facilitating initiative rather than a mandatory, imperative form of regulation, the compact has proven to be far more successful at gaining corporate 'buy-in' than any preceding initiative. The Compact, though, sees itself not as a substitute for regulation but as a network supplementing regulation at a global level.

This approach has not been without controversy. Critics have argued that signing up to the ten principles does not commit corporations to very much, since compliance is not monitored and defection is not substantially sanctioned. Ultimately, the critics see the Global Compact as a cheap 'bluewash' for corporations (meaning they cover up or 'wash away' their problems with the blue of the UN flag), and a rather naïve approach to globalization that ignores the compelling economic rationalities of liberalized world markets.

Meanwhile, after becoming the largest such initiative in the world in terms of membership, the Global Compact has implemented a more formal structure of self-governance, including a board with representatives from business, civil society, labour, and the United Nations. The initiative also bolstered its integrity by firming up the rules of membership and, by 2018, had delisted over 8,000 signatories for non-compliance with the rules.

The relative success of the Global Compact in engaging with business has led to the emergence of more focused sector initiatives from the UN that apply a similar strategy. These include the 'UN Principles for Responsible Investment' (see Chapter 6, Socially responsible investment), and the 'UN Principles of Responsible Management Education', which provides a set of principles for business schools to follow in their education of future business leaders. More than 650 business schools have signed up to PRME, making it one of the most widely adopted initiatives in the sector.

SOURCES

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Rasche, A., Waddock, S., and McIntosh, M. (eds.) 2013. The United Nations Global Compact Retrospect and Prospect. *Business & Society*, 52 (1): 6–30.

http://www.unglobalcompact.org.

http://www.unprme.org.

QUESTION

Relate the UN Global Compact to the concepts of business–society relations, as outlined in Chapter 2. Where does the Global Compact fit into these concepts? Which areas does it not cover? By using these concepts, try to give a critical assessment of the potential and chances of the Global Compact.

Visit the online resources for web links to useful sources of further information.

- **Process rather than outcome orientation.** The core approach of many of these new standards is not so much to provide a tool that standardizes, monitors, and benchmarks social or environmental performance. Rather, the goal is to prescribe management processes which can be implemented in individual businesses and can guide management practices that then will be able to lead to the desired changes in performance (Hahn and Weidtmann 2016). This rather pragmatic approach is informed by the experience that widespread adoption of many standards has been hampered by firms' reluctance to accept binding forms of prescribed outcomes and measures.
- **Frameworks rather than specific norms.** In the process of global governance, multiple actors have to work together on a basis of mutual consent in the absence of the imperative authority that a single government would traditionally be able to exert. Therefore, such processes of deliberation, negotiation, and experimentation cannot be prescribed by fixed rules and clear goals. Here this new generation of standards serves as a framework for guiding responsible business behaviour while leaving individual actors the space to adapt and implement these ideas on the ground. Globalization has created awareness for the global impacts of business from an ethical perspective; however, it appears that many of the solutions—as we have seen in many of the examples and cases in this book—are heavily dependent on local context. ISO 26000, for instance, has been used as a framework for local standards governing responsible business practices in countries as diverse as Australia, Brazil, Denmark, and Spain (Hahn 2013).

Ethics in Action 11.2 discusses the UN Global Compact as an attempt to explore a different trajectory to fill the lack of regulatory bodies at the global level. **Practitioner Spotlight 11** relates to Sara Krüger Falk, who works for the UN Global Compact.

PRACTITIONER SPOTLIGHT 11 **Driving change at the transnational level**

What are the skills needed to work within a large intergovernmental organization such as the United Nations? Here **Sara Krüger Falk—Executive Director of the Global Compact Network Denmark**—gives us a unique insight into how she nurtures strong business–government relations to drive sustainable environmental and social change.

Can you tell us a little bit about where you work? The Global Compact is a United Nations (UN) voluntary initiative that is based on CEO commitments to implement universal sustainability principles and to support the ten principles of the UN Global Compact and the UN Sustainable Development Goals. The UN Global Compact Network Denmark is made up of over 260 organizations from Denmark. We also have a collaboration among the Nordic countries where networks are being established in Sweden, Norway, and Finland as well as a close collaboration with Iceland and Greenland. The purpose of the local network is to provide a learning forum for Danish members of the Global Compact and to advance corporate sustainability at the grassroots level by helping companies understand what responsible business means within a national context. As the Executive Director of the Global Compact Network Denmark, I work to advance corporate sustainability and the ten principles of the Global Compact with the companies we work with.

What practical skills do you use day-to-day? Networking skills are very important given the broad range of organizations I work with. I ensure that I have a clear and up-to-date understanding of business perspectives on issues including Human Rights, Supply Chains, Anti-corruption, and Environment. It is essential that I have a thorough understanding of legislation and both 'hard' law and 'soft' law. I also have to give a lot of presentations! At the moment we have a strong focus on innovation and technology to advance sustainability. Breakthrough Business Models are key to addressing the future challenges facing the world and business can provide solutions that help to end hunger, secure good health and well-being, as well as provide clean water and sanitation.

What has been your career path to date? I started out studying Spanish and Anthropology at an undergraduate level (I hold a BA degree in Spanish) and International Development and African Studies (I hold an MSc in International Development and Education and an MA in African Studies). Most of my studies took place in Mexico and Denmark at the Universities of Copenhagen and Roskilde. The most useful learning from my studies has been around developing a greater understanding of development and partnerships. This has been helpful in building expertise across private sector, public sector, and civil society, particularly in forging business partnerships and Corporate Social Responsibility strategies. I have gained international experience of organizations including the Ministry of Foreign Affairs in Denmark, Confederation of Danish Industry, and the International Medical Cooperation Committee and I have now been leading the Danish Network for one year.

What do you enjoy most about your job? I work with exactly what I want to do. I thrive to mobilize business to do more and to advance sustainability and I am passionate about business as a force for good.

If you could change one big world issue, what would it be? I would say changing the way in which our capital systems work—they are too focused on short-termism and economic profit. We need more purpose and longer-term perspectives, as well as better partnerships and collaboration across all sectors and societies.

SOURCES

https://www.unglobalcompact.org.

https://www.globalcompact.dk.

http://um.dk/en.

http://imcc.dk.

Visit the online resources for more Practitioner Spotlight interviews.

11

In the final analysis, it would appear that the whole area of business involvement in self-regulation is multi-faceted, multi-level, and highly dynamic. That business is involved in regulation is clear—thereby providing support for the argument that corporations have increasingly become involved in the protection (or otherwise) of citizens' rights and interests. What remains unclear, though, is whether voluntary initiatives by corporations can ever succeed in providing suitable and sufficient protection for citizens. While business conduct has clearly improved as a result of private regulation, particularly in respect of accepting responsibility for social and environmental conditions in the supply chain, its impact on the root problems it has been designed to address has been limited (Vogel 2010). Evidence suggests that the background presence of state regulatory capacity—or the 'gorilla in the closet'—is often a necessary precondition for effective enforcement (Verbruggen 2013). In the final section we shall address these questions in the specific context of sustainability.

GOVERNMENTS, BUSINESS, AND SUSTAINABILITY

In Chapter 1, we defined sustainability as 'the long-term maintenance of systems according to environmental, economic, and social considerations'. This definition certainly captures the broad understanding of the concept in business, politics, and wider parts of society. Reaching towards the end of the book, however, we should add that this definition by no means satisfies everybody, nor is it how it was originally thought of. Sustainability was certainly first considered a pre-eminently ecological concept prescribing rules and principles for the usage of natural resources in such a way that allows future generations to survive on this planet (see Pearce and Turner 1990).

A central idea of sustainability is to prescribe and implement changes to the usage of natural resources (Turner 1993). With regard to renewable resources, such as wood, agricultural products, water, or air, the key principle would be not to use those resources beyond their capacity of regeneration. With non-renewable resources, however, such as coal, oil, minerals, metals, and other key resources of modern industry, the original rules of 'strict' sustainability would suggest that none of these resources should be used if they would put future generations at a lower level of ability to meet their needs than the present generation. In the case of metals and other recyclables, this would result in fairly strict rules for circulating these resources in the economy; with regard to oil or coal, the consequences are more severe. Since resources such as these will ultimately be depleted, we have to be extremely cautious about their use, especially since they have major effects on the climate. Some have argued that sustainability does not allow their further usage at all. The Climate Tracker Initiative, for instance, promotes the concept of 'unburnable carbon' on the basis that burning today's known reserves of fossil fuels would lead to a greater than 2 degrees Celsius increase in global warming—which is the level committed to by governments in 2010 in order to prevent the worst effects of global climate change from occurring.[16]

Without going into too much detail, sustainability in this sense is quite a tough and—from a business perspective—somewhat threatening concept. This applies particularly to industries that rely on non-renewable or carbon-intensive resources, such as the mining, oil and gas, or chemical industries. There has been some research that shows that the mutation of the sustainability concept from the original ecological view towards a 'softer' concept has been particularly driven by industry. For example, Mayhew (1997) showed how the World Business Council of Sustainable Development—a major international business association—introduced a systematically watered-down definition of sustainable development and, in so doing, gave a new, more industry-friendly meaning to the concept. By linking sustainability not only to ecological, but also to social and economic criteria, the strict rules for using resources are loosened and the concept becomes far more open to discretion.

Some authors, therefore, argue that the original agenda of sustainability has been 'hijacked' by industry and made less threatening and more ready to serve as a buzzword for corporate public relations (Welford 1997; Parr 2009). Unsurprisingly, many have argued that it is governments that should take the driving seat in achieving more sustainable business practices. However, Peter Haas (2012) has argued that, by and large, governmental bodies have failed to deliver on implementing sustainable development because in most countries they have not been able to stand up to entrenched economic interests. This pertains to both a failure in restricting business from engaging in unsustainable practices, and to promoting greener entrepreneurship and green business alternatives. The central ethical debate here focuses on the question of whether governments need to address sustainability primarily by imperative regulation or whether voluntary, market-based approaches provide more efficient and fair outcomes in pursuit of a more sustainable economy. We will illustrate these aspects by analysing the role of business and governments in the area of climate change and in the area of commodity management with regard to food security.

GLOBAL CLIMATE CHANGE LEGISLATION AND BUSINESS RESPONSES: SUPPORT VERSUS OBSTRUCTION

One of the key political arenas of sustainability has been the debate on the regulation of global climate change (Levy and Newell 2005; Klein 2014). The leading transnational body in this arena has been the United Nations (UN, with 185 member states) and their climate conferences, through a bewildering array of incarnations and institutions culminating in the High-level Political Forum on Sustainable Development (Schüssler et al. 2014; Wagner 2005). A series of a dozen or more massive conferences, or mega-summits, the world's biggest, have occurred in the last decades with the purpose of co-ordinating a global approach to tackling climate change and associated problems. These summits are the central hope for substantive change, but have had varying degrees of success, not least in terms of engaging with the different perspectives of emerging economies (Eberlein and Matten 2009). Notwithstanding inherent political difficulties, at each stage, lobbyists are working actively both for and against the cause of climate change.

As things stand, the 2015 Paris Agreement on Climate Change is the dominant transnational commitment (Klein et al. 2017). The central theme of this was to strengthen the global response to the threat of climate change by keeping a global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius.[17] While this agreement is the best thus far, there is a much more complex story to tell than the straightforward central theme indicates. While civil society organizations were busy lobbying for a progressive agreement, the necessary reductions in carbon dioxide emissions represent a severe threat for some industries, not least the energy sector. In a biting critique of the Agreement, Professor of Public Policy and Governance, Clive Splash, argues that it changes nothing, merely reinforcing the status quo (Splash 2016). He points to the need to understand the agreement in the context of effective corporate business lobbying and the continued arguments for growth, albeit under a banner of sustainable development via economic growth. Splash is right that the Paris Agreement on Climate Change curiously manages to avoid mention of the necessary reduction of energy consumption in terms of tackling sources of greenhouse gas emissions, fossil fuel use, fracking, shale oil, or explorations in the Arctic and Antarctic in oil and gas. Instead the focus is on what—he argues—has been achieved by the powerful lobby for growth as the solution to climate change by corporate business and financiers arguing for the 'green growth' agenda. This, in turn, involves looking to new innovations and technology to drive this growth, ultimately pouring money into those energy companies and other corporations to innovate and develop new technology, and it is perhaps not surprising that the promise of new markets and opportunities is appealing to business (Pinkse and Kolk 2012). Powerfully, Splash (2016: 929) concludes that 'the techno-optimists [who] are advocating some future miracle solution (e.g. geoengineering, carbon capture and storage) are primarily concerned with maintaining business as usual regardless of human-induced climate change or any other environmental problem.' Even this analysis seems a little optimistic when faced with a reminder that some North American oil companies also sponsored their own scientific 'experts', seeking to give a voice to the denial of climate change (Rothenberg and Levy 2012). As Andrew Hoffman (2015) argues, there is an entire 'culture' of climate change denial in large parts of the American citizenry.

While Clive Splash does not name names in terms of which corporations have had an influence on climate change agreements and policy, research by UK think tank InfluenceMap[18] follows corporate engagement—both for and against—with climate policy. They found, in 2017, that the corporations most engaged with climate change policy were not those speaking up in support of them, such as Apple, Unilever, and Ikea, but those against—oil companies ExxonMobil and Chevron leading the pack, as it were. As always, the picture isn't as clear as it might be—another 2017 study of theirs shows that, while individual companies may have apparently positive climate change policies, the networks they belong to, often powerful and well-funded business associations, are pushing in a different direction, allowing the individual companies to protect their reputation as good corporations while keeping clean hands individually. The most powerful such associations, InfluenceMap find, are all US-based: the US Chamber of Commerce, the National Association of Manufacturers, and the American Legislative Exchange Council. In Europe, the European Chemical Industry Council and the European Automobile Manufacturers Association (ACEA) lead the pack. On the whole, large corporations achieve more negative influence through their business association networks than through their individual lobbying efforts.

It is too early to tell what the impact of the Paris Agreement on Climate Change will be, but there are indications that some businesses are making changes in the right direction while others continue to fight against the associated requirements at a more local level. Some political minds have been changed in this process (not least since office-holders change), most notably in 2017 when President Trump announced the US' withdrawal from the agreement.

ACHIEVING SUSTAINABILITY: SECURING THE GLOBAL SUPPLY OF FOOD AND WATER

Another area of concern for governments in many countries, developed and developing nations alike, is the conservation of a sustainable livelihood for their citizens. Among the key challenges are the conservation of freshwater resources and the issue of food security. In both areas, business plays a key role, which has given rise to a number of ethical concerns.

An initial issue arising in the latter part of the last century in the industrialized world was the increasing water pollution caused by business, most notably the chemical industry. While these issues have been more or less successfully addressed through increased regulation and oversight, water pollution has become a major concern in rapidly industrialized countries such as China or India. In China, for example, the government has reported that 60% of its groundwater is polluted, giving rise to major public-health problems, including the existence of rural 'cancer villages', i.e. areas with high rates of cancer clustered around pollution hotspots (Chen 2015).

Another ethical debate has arisen around the privatization of water management and supply in many countries across the world (Rahaman et al. 2013; Ziegler and Groenfeldt 2017). The most spectacular example of the ethical challenges of water privatization can be found in Bolivia (Roa-García, Urteaga-Crovetto, and Bustamante-Zenteno 2015). As many state-owned water suppliers in developing countries are challenged with corruption issues, efficiency problems, and poor-quality service, the World Bank has typically pushed countries towards privatization of the water supply. When Bolivian water was privatized in the early 2000s, American and French multinationals took over and began charging high fees or else refused to connect to the grid neighbourhoods that could not afford to pay. When, as part of their supply-chain management, the companies successfully lobbied the government to outlaw the use of rainwater, this led to violent protests ('water wars') and, ultimately, a change of government in the country. Resulting new legislation, the Water and Sanitation Services Law, was welcomed, in that it specifically recognized different types of water users and particularly marginalized consumers were differentiated from businesses, which would be expected to pay fees. However, the approval process for authorizing commercial use is so cumbersome that the system fails to work as intended. Businesses take advantage of the malleable legal mechanisms to avoid payment of water use fees, detracting attention again from the needs of the everyday citizens (Roa-García et al. 2015). In Bolivia, rather than the ethics beginning where the law ends (as we suggested in Figure 1.1), it can be argued that the law—or at least its implementation—in relation to water is in itself somewhat of a grey area.

The problem by no means exists only in developing countries: Nestlé became a target of public outcry in the spring of 2015 in California, when it was found bottling and exporting water in the middle of a severe drought when water rationing was imposed by the state government (Walker 2015). Potential solutions seem to lie either in co-operatives (see Chapter 6; Douvitsa and Kassavetis 2014) or in novel, tripartite community enterprises, where Western multinationals bring capital and know-how and local governments and CSOs provide the infrastructure and human capital (Nwankwo et al. 2007).

In addition to water, with well over 7 billion people on the planet and rising, the issue of food security is also becoming a growing sustainability concern for governments worldwide. Together with the depletion of key resources, such as fish stocks, and the increasing proliferation of toxic chemicals, such as DDT, and plastics in the food chain, the issue is thought to be one of the major political challenges for the future. Again, the corporate sector plays a key role here, as private corporations control most elements of the global supply chains for food.

A major issue which has put substantial strain on poorer countries is the volatility of global food commodity markets (Clapp and Helleiner 2012). This has been exacerbated by another sustainability issue, namely the rise of biofuels to substitute for fossil fuels. As the consensus is growing that increased biofuel use will have a negative effect on food security (Nonhebel 2012), it is obvious that a good many of the decisions about these issues will have to be taken by private corporations, even if governments continue to play a role in setting the parameters and constraints on addressing these ethical issues. Again, this is not just an issue for developing country contexts. With food insecurity come increasing costs to all consumers. As food prices rise relative to household incomes, we have seen the increase in need for food banks, which distribute donated and purchased groceries directly to food-insecure families. In a review of the literature on food banks and food insecurity, however, Bazerghi, McKay, and Dunn (2016) found that while they create an important short-term stopgap to those suffering from food deprivation, the capacity of food banks to improve overall food security would require a systematic restructuring of the service to bring together nutrient-rich perishable foods and the needs of clients. Food insecurity across all kinds of economies looks to be here to stay.

It is worth pausing to think for a moment: our certainty of accessing water and food in an affordable, straightforward way to meet our basic health and quality of life needs is at stake. Such challenges could hardly be more important for government, business, and communities to attend to.

SUMMARY

In this chapter we have looked in some depth at the stake held by government in business, and set out how the role of government, and its central task of issuing regulation for business, affects this stakeholder relationship. We have seen that 'government' today is quite a complex set of actors and institutions that act on various levels, from local or regional level to a transnational or even global stage.

During the course of the chapter we have discussed the complex role of governments and the interdependencies and mutual interests that they have with business. As an actor that is primarily obliged to pursue the interest of the electorate, or society, the dominant ethical challenges in business–government relations are the issues of legitimacy and accountability. This particularly focuses on the question of how much influence business should have on governmental actors, and by what means this influence should be enacted. We discussed various forms of business intervention in governmental decision-making, from lobbying, to party financing, to more extreme forms of state capture and corruption.

We then took a closer look at the way globalization shifts the roles of business and government in regulating issues of relevance to business ethics. We discussed the notion of global governance, which assigns a new role to corporations as active players in the regulatory game, and discussed the various options and innovations in private regulation open to business and other players. We qualified this new role for business, though, when analysing the role of government in ensuring sustainable practices in business. While business is a key player in governments' attempts to implement sustainable development business, short-term interests may hamper these initiatives, as we have seen particularly in the area of climate change regulation.

STUDY QUESTIONS

1. What is regulation? What does it mean to say that actors other than government engage in regulation?
2. Explain the two basic roles of government that determine its stakeholder relationship with corporations.
3. What are the potential ethical problems associated with corporate lobbying of government?
4. 'Corporations should never do business with authoritarian or oppressive regimes. It is simply beyond the boundaries of ethical acceptability.' Critically examine this argument, outlining practical ways in which business can make decisions about which countries to do business in.
5. Why have corporations been increasingly involved in setting regulation for social and environmental issues and what are the main ethical challenges associated with their involvement?
6. Are strong governments necessary to achieve an effective response to climate change? Explain, using examples from contemporary business practice.

RESEARCH EXERCISE

Conduct some research on the Responsible Care programme of the chemical industry (https://www.icca-chem.org/responsible-care).

1. Explain the main details of the programme.
2. To what extent is the programme illustrative of private regulation?
3. What are the advantages and disadvantages of private regulation compared to imperative regulation for ensuring ethical conduct in the chemical industry?
4. Would you say the programme is likely to be sufficient to ensure ethical conduct in the chemical industry? If not, what else is necessary?

KEY READINGS

1. **Vogel, D. 2010. The private regulation of global corporate conduct: achievements and limitations. *Business & Society*, 49 (1): 68–87.**
   This article from one of the leading academic voices in the business–government interface provides a concise overview and conceptualization of the private regulation of global business. It maps out why such forms of regulation have emerged, what benefits they bring, and what their limitations might be. It concludes quite critically, arguing that while private regulation has made some advances, it should not be seen as a replacement for more effective state regulation.
2. **Anastasiadis, S., Moon, J., and Humphreys, M. 2018. Lobbying and the responsible firm: agenda-setting for a freshly-conceptualized field. *Business Ethics: a European Review*. DOI: 10.1111/beer.12180.**
   This article by Anastasiadis and colleagues is a refreshing look at lobbying, is very accessible, and helps to delineate some of the finer-grained points relating to lobbying and its intricacies; including distinguishing clearly between corporate lobbying and other types of corporate political activity. The authors consider lobbying in relation to the content, process, organization, and environment of lobbying and identify what it takes for lobbying to be responsible.

Visit the online resources for further key reading suggestions.

11

CASE 11 Governing sustainability at the Olympics

Stephanos Anastasiadis and Laura J. Spence[19]

There are many sustainability issues around the respective four-yearly summer and winter Olympic sporting mega-events. Examples of an acute nature include waste, food, local air quality, or supply chain management. Chronic legacy issues relate to environmental performance of the built environment, social inclusiveness of the housing legacy, the economic impact of the games on the host area and their communities (at both national and local urban level), or the longer-term impact on community regeneration. More broadly, the International Olympic Committee (IOC) has a significant potential role to play in promoting the sustainability of the Games as ongoing instalments in the quadrennial spectacle, taking on a quasi-governmental role.

The IOC sets the framework for the Olympic Games. It was created in Switzerland in 1894 as an international non-governmental organization (NGO). It is the supreme authority of the Olympic Movement, which, they declare in the Olympic Charter, encompasses organizations, athletes, and other persons who agree to be guided by the principles of the Olympic Charter. The Charter regulates a range of matters, from the fundamental principles of Olympism, to legal protection for the Olympic intellectual properties, to the rules and by-laws associated with the running a Games. It also provides the statutes for the IOC; these are not unusual for an international NGO. The IOC is a membership-based organization; members are elected for eight-year terms, by existing IOC members, and they are accountable to the principles of the charter and to the IOC. Membership of the IOC is strictly limited. The Charter also foresees the meeting of an Olympic Congress—which gathers representatives of the constituents of the Olympic Movement—though this has a consultative role only, with the agenda being determined by the IOC's executive board. In somewhat of a narrow view of stakeholders, the IOC's stakeholders are conceptually limited to those within the Olympic Movement.

According to the Olympic Charter, among other elements, the mission and role of the IOC is to 'encourage and support a responsible concern for environmental issues, to promote sustainable development in sport and to require that the Olympic Games are held accordingly'. In contrast to its laudable mission, it is also important to note that there is an embedded issue of corruption in the IOC, where low ethical standards have dogged the governance of the movement for many years.

The IOC is an NGO, in its structure, stated aims, and ideals. However, it is in practice a kind of hybrid organization. In addition to its NGO nature, the IOC also exhibits elements of business and government. As an organization ultimately responsible for the world's greatest recurring sporting event, the IOC operates in a business-like fashion; indeed, much of the Charter is taken up with the minutiae of running, marketing, and branding the Games. Finally, in its dealings with sponsors, governments, and local organizing committees—even regulating certain aspects of traditional government activity, such as rules of commerce—the IOC exhibits government-like characteristics. Indeed, so government-like, albeit in specifically circumscribed areas, are governing bodies such as the IOC that they are frequently targets of lobbying themselves. Sovereign governments are subordinate to them in their specialist areas, and corruption scandals of the sort that have afflicted governments have also emerged in recent years with respect to the IOC.

The consistent material features of the Games, which are locally interpreted, run parallel to the official Olympic values. These are in turn transplanted to each new venue and Games. Values are formalized in the Olympic movement through the Olympic Charter and embodied in the International Olympic Committee's Code of Ethics. Many aspects are also incorporated in legal structures. For the London 2012 Games, these included, for example, the London Olympic Games and Paralympic Games Act 2006 and the Olympic Symbol (Protection) Act of 1995. Such national rules largely govern the commercial aspects of the Games. Indeed, through the detailed requirements in place for hosting a Games, the IOC could be said to replace governments in certain highly circumscribed circumstances: such features as the legal arrangements in place to channel and restrict commerce, and temporary national rules on taxation, suggest that states cede some of their sovereignty to the IOC in return for the right to hold the Games.

One of the IOC's four headline tasks is to bring the three Olympic values to life: excellence, respect, and friendship. Within this area of activity, the IOC works under the heading of Olympism in action, divided into six thematic fields of activity, one of which is 'environment' (a standard set of demands, regardless of local conditions, circumstances, or challenges, could lead to charges of neo-colonialism). Environment and sustainability are relatively recent additions to the Olympics. Since 1999, all candidate cities have been required to provide information on the 'environmental conditions and impact' of the proposed games.

The IOC has two kinds of government-like roles, vis-à-vis sustainability. First, it has responsibility—whether exercised or not—in setting the framework conditions for sustainability at each Games. Second, the IOC has a role in mediating between the different stakeholders of a Games, and in particular paying attention to the most salient stakeholders. Experience in other sporting mega-events shows that governing bodies do not always succeed in finding the balance between the roles they play, which poses a particular social challenge in poorer host nations. Failure to engage in such issues can raise uncomfortable political questions around governance, sovereignty, and democracy, undermining the IOC's legitimacy.

With all these drivers for the Olympics to be a positive influence on sustainability, it is unsurprising that eyebrows have been raised about the 2022 Winter Olympics in Beijing, China being a country plagued with desertification problems. Despite some laudable intentions, the Rio de Janeiro 2016 Olympics were dogged by critical fears around poor water conditions for all those involved in water sports, despite the initial bid promising a massive investment in improving them. Promises to plant trees were also broken, with only about a third of the 24 million new trees promised in the bid being planted. The failure of Rio 2016 in environmental terms was a particular disappointment because

Olympic Games in the 21st century had started to make some progress. After an impressive effort by Sydney 2000, with initiatives such as free public transport to the games, to date, the best example is London 2012. In this case, ambitious targets and policy commitments meant that near zero waste went to landfill, and there was innovation in design and construction of buildings. A flagship example is the Aquatic Centre designed by Zaha Hadid, which was in part deconstructed and reused elsewhere (in terms of everything from large chunks of the building to seating and toilets) after the Olympics and Paralympics and is now a swimming centre open to the public, as well as available for competitions. Here, we look in more detail at how this relatively positive outcome was achieved.

While by no means perfect, the London 2012 Olympic Games can justifiably lay claim to the widely reported titles of 'greenest games' and most sustainable so far. One of the reasons for London's strong performance is that sustainability was built into every aspect of the Games. This includes the institutional innovation of setting up an independent sustainability assurance body, the Commission for a Sustainable London 2012 (CSLondon) (led by Shaun McCarthy OBE, **Practitioner Spotlight 9**), which was tasked with monitoring and reporting on progress. CSLondon consulted widely with stakeholders and took a middle-path between normative and pragmatic considerations, summed up in the following statement: 'Taken in isolation, delivering an [Olympics] is an inherently un-sustainable thing to do. We therefore cannot call the programme truly sustainable unless the inspirational power of the Games can be used to make a tangible, far-reaching difference'. The London organizers engaged in detailed advance planning, with substantial resources committed to achieving sustainability objectives. The sustainability performance of the 2012 Games has been well documented, with a wealth of reliable information on a range of relevant aspects; the most salient being material from CSLondon and the Olympic Delivery Authority's purpose-built Learning Legacy. The final CSLondon report concludes that 'sustainable practices inspired by London 2012 should out-weigh the inevitable negative impacts of the Games over time'.

The governance structure for the 2012 Games was complex, linking different strands of the Olympics Movement with actors in government. The highest, most abstract level included the IOC, a Home Affairs sub-committee, and the Olympic Board (overall decision-making body for the Games programme). Mid-range actors provided support 'upwards', as well as overseeing organizations delivering specific aspects of the Games. Two such actors were the London 2012 Sustainability Group—responsible for delivering the Games' sustainability programme—and the Commission for a Sustainable London 2012 (CSLondon). Organizations at the lowest level of the governance structure provided delivery (e.g., the Olympic Development Agency—ODA and The London Organizing Committee of the Olympic and Paralympic Games—LOCOG). Each of these in turn had extensive relationships with corporate and other business suppliers and providers. The range and complexity was enormous, as one would expect from such a mega-event. However, actors in the formal governance structure were not the only stakeholders. For example, local residents—and civil society more broadly—often criticized aspects of the Games' planning and delivery.

One of the greatest controversies at the 2012 Games related to the question of sustainability sponsorship. Financial imperatives seem to have been the guide in decision-making. This led to a number of controversial choices of sustainability sponsor, including an oil company. As one civil society member put it, 'Whoever Okayed this decision [to accept BP as a sustainability partner] clearly has no understanding of what "sustainability" means'. Further, the IOC was almost entirely disengaged from the local sustainability process, reportedly attending few meetings and being generally absent from discussion.

CSLondon is an interesting and relevant development within the wider Olympic story. It was set up precisely to further the specific goals on sustainability to which the IOC subscribes, and reflected strong local political will. The London 2012 Games developed processes on such diverse elements of mega-events as construction, supply chains, labour standards, volunteering, local impact, and financial cost.

One way to ensure greater institutionalization of sustainability in the Olympic Games would be for the IOC to take it up more strongly. One indicator of such an approach would be to see sustainability planning taking a more active role in the final decision on host cities (all else being equal, the more sustainable plan wins). Another would be for the IOC to require that sustainability sponsors have meaningful sustainability substance. As it is, the individual cities are left largely to their own devices, and a 'parallel institutionalization' does not appear to be happening. That is, the institutional knowledge and practices generated at local level over the course of one Games with respect to sustainability do not appear to be being transferred to future Games. This is evident when one considers the large gaps between the three outstanding approaches to a sustainable games to date (Lillehammer, Sydney, London), and the notable lack of evidence of serious sustainability approaches in the Games currently being planned. Not everything can be left to the IOC, of course. For one, there is little indication at present that sustainability is a substantial political priority; and for another, it would be unwise to add to existing criticism of the IOC for being too centralized and controlling. Still, the IOC was notable for its near-complete absence from the sustainability assurance process organized by CSLondon.

QUESTIONS

1. Should international sport governing bodies such as the IOC or FIFA have social and environmental responsibilities?
2. The Olympic Games have a close relationship with business through sponsorship. Why do you think businesses do this? What might their motivations be?
3. The IOC is a clear example of private regulation at the interface between business, government, and civil society. Assess its effectiveness in terms of the ISO 26000 standard's expectations such as: deliberate rather than dictate; process rather than outcome orientation; frameworks rather than specific norms.
4. Corruption seems to be endemic in the Olympic movement. What are the conditions under which it is possible for it to be so persistent?
5. In the build-up to and aftermath of the Tokyo 2020, Beijing 2022, and Paris 2024 Olympic Games, what profile does corporate political activity have in the arrangements around the Games? Can you discern their influence?

Visit the online resources for web links to useful sources of further information on this Case.

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NOTES

[1] Unless we explicitly state otherwise, it should be noted that we chiefly talk about democratic political systems with some form of parliamentary representation.

[2] Statistics in this paragraph from www.statista.com.

[3] http://www.europarl.europa.eu/news/en/press-room/20171212IPR90102/transparency-register-second-political-meeting-opens-way-for-negotiations.

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[8] See Hooper, J. 2009. Berlusconi declares war on European media over sex scandal reports. *Guardian*, 28 August: http://www.guardian.co.uk; Walters, B. 2009. TV network's attempt to stifle Silvio Berlusconi documentary backfires. *Guardian*, 3 September: http://www.guardian.co.uk.

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[11] https://www.icca-chem.org/responsible-care.

[12] For details on the ISO norms discussed in this chapter visit the ISO website at http://www.iso.org/iso/home.html.

[13] http://www.gbchealth.org.

[14] http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf.

[15] http://www.iso.org/iso/home/standards/iso26000.htm.

[16] http://www.carbontracker.org.

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[18] https://influencemap.org/report/Corporate-Carbon-Policy-Footprint-4274a464677481802bd502ffff008d74; https://influencemap.org/report/Trade-Associations-and-their-Climate-Policy-Footprint-067f4e745c9920eb3dfaa5b637511634.

[19] A version of this case study was presented at the European Group of Organization Studies Conference, 2–4 July 2015.

12

Conclusions and Future Perspectives

By the end of this chapter you should be able to:

- Summarize the role, meaning, and importance of business ethics including emergent themes.
- Summarize the influence of globalization on business ethics.
- Summarize the value of the notion of sustainability.
- Summarize the role and significance of stakeholders as a whole for ethical management.
- Summarize the implications of corporate citizenship thinking for business ethics.
- Summarize the contribution of normative ethical theories to business ethics.
- Summarize the benefits of thinking about ethical decision-making.
- Summarize the role of specific tools for managing business ethics.

INTRODUCTION

We hope that by now you have a pretty good idea of what business ethics is all about, and what some of the main issues, controversies, concepts, and theories are that make business ethics such a fascinating subject to study. There is always a danger, though, that in reading a book such as this you are left at the end thinking something like: 'Fine, each individual chapter makes sense, but how does it all fit together?' In this last chapter, therefore, we will attempt to remedy this by setting out a brief overview of the key topics of the book and providing a round-up of our discussions during the preceding 11 chapters. We will in particular return to the subjects introduced in Part A of the book—such as globalization, sustainability, stakeholder theory, corporate citizenship, ethical theory, and management tools, etc.—and summarize how we have applied, developed, examined, and critiqued them in the context of individual stakeholders in Part B of the book. We will start by drawing out some of the emergent themes particular to the current business ethics arena. This final chapter should, therefore, help you to bring together what you have learnt so far and summarize the most important lessons about business ethics.

THE NATURE AND SCOPE OF BUSINESS ETHICS

As you will have gathered, the straightforward question of 'what is business ethics?' does not lend itself to a simple answer. In Chapter 1 we defined the subject of business ethics as 'the study of business situations, activities, and decisions where issues of right and wrong are addressed'. Throughout this book, we have also emphasized the importance of seeing business ethics as largely, but by no means exclusively, starting where the law ends. We began this focus in Chapter 1, and have reiterated it by showing how this relationship is an increasingly complex one, with corporations sometimes supplementing or replacing the law-making process with self-regulation, and sometimes challenging, resisting, and subverting legalistic approaches to enforcing ethical behaviour. Whichever way we look at it, the relationship between business ethics and the law would appear to be an area of continued change and evolution in the years to come. Moving forward, business ethics should be seen not so much as simply beginning where the law ends, but as a practice that both influences and is influenced by the law.

Clearly, the range of situations, activities, and decisions surrounding business ethics as a topic is immense. We have certainly discussed most of the main ones, but existing problems sometimes go away or become more a matter of legislation, and new problems continue to arise, either because of new technologies, changes in business practices or markets, exposure to different cultures, changing expectations, or simply the arising of new opportunities for ethical abuse. Consequently, it is never possible to determine the exact extent of the business ethics subject—it is constantly evolving. You should remain alert to new issues and business ethics controversies that come into focus during your studies and your career. In writing this book, we have also noted contemporary cross-cutting emergent issues that are shaping the business ethics field, namely gender and other inequalities, alternative business models, and digitalization. These are 'live' topics, and while we summarize some of the main points here, we recommend that you keep engaged with the media and business practice to follow how things develop in the course of your studies.

GENDER

It is hardly a new topic but the wave of focus on gender and other inequalities relating to characteristics such as disability, race, sexuality, or class is having a profound effect on business and business ethics (Grosser, Moon, and Nelson 2017). Gender and other inequitable practice has been a recurring theme throughout this book. This has included the drive to find new pools of talent in the Indian IT industry, as we illustrated in **Ethics in Action 1.1**, and the struggle to have business leaders think seriously about candidates with a disability; sexism at play against newspaper publisher Katherine Graham in **Ethics on Screen 2**, *The Post*; and our acknowledgement in Chapter 3 that the vast majority of the normative ethical theories we have presented—arguably the very foundation of business ethics—were written by, and critically, for, a sub-group of the human population—privileged, probably white, men. We sought to provide some equilibrium to this by bringing in women contributors, and greater balance to the traditional theories, as well as further developing the section on an ethic of care, which is neither exclusively about nor for women, but which was originally founded on the basis of both men's and women's voices.

This approach hardly seems revolutionary, but it is certainly different from many business ethics textbooks and, we think, should enhance your ethical decision-making ability. Given that we have promoted a pluralistic approach to applying normative theory, a monochromatic set of theories is not likely to be the most enlightening. Within the academic business ethics community, too, there has been a recent push-back against the exclusion of feminist theory and paucity of high-profile women's voices (Spence 2016b). It is in Chapter 7 on employees and workers when discussing discrimination that we visit some of the reasons which seem to have sparked this. They include new legal requirements in the UK for large organizations to publish information on their salaries by gender—revealing shocking gender pay gaps. Another impetus is the global attention given to very high-profile men, such as Donald Trump prior to becoming US President, speaking in derogatory sexual terms about women and the media storm sparked by accusations by women against film producer Harvey Weinstein. We discuss the resulting fallout for abusive men in positions of power and the social media phenomenon, the #Metoo movement, in Chapter 7.

We are said to be in the fourth wave of feminism. The first wave[1] was about universal suffrage—women gaining the vote in democratic societies. The second was about women's inequality in society, and the third wave sought to correct the previous focus on the lives of privileged white women, to incorporate women of colour and to understand the multiple 'feminisms' at play. Fourth-wave feminism is typified by feminism-as-activism. A global community of feminists—buoyed by the internet and social media—have played an enabling role in a 'call-out' culture, where injustices, including all forms of discrimination and 'everyday sexism', can be publicly aired. Such public displays of dissent have consequences, of course; positive ones in many cases, but not always. Some question whether such feel-good campaigns really help those most excluded from society, who may not have access to internet technology and are most disadvantaged of all, deserving of help and attention.

As you read this book you may be aware of shifts in feminist perspectives and better understand the position of women and others in business from the boardroom to the very beginning of the supply chain. Each and every arena deserves to be looked at with an equitable gaze, fully understanding the business ethics implications for all.

ALTERNATIVE BUSINESS MODELS

In the early years of business ethics education, the business in question was pretty much assumed to be a large multinational firm, financed by publicly traded shares and the incumbent expectations on the Board of Directors, executives, and senior managers as the voice of the business and in turn guardians of business ethics. Times have changed, perhaps as a result of the catastrophic role which those very corporations played in the financial crisis of 2007. At the time, it was assumed that the corporate world could not continue as before and that capitalism would have to change to enable more ethical business practice. It is not clear that this actually happened, but perhaps as a consequence, the near-idolization of large corporations has been dented, and alternative business models have come into clearer focus.

Throughout this book we have sought to normalize thinking about different types of organizational form and how they might deal with business ethics issues. In Chapter 1, we set this up at the level of large versus small businesses, civil society, and the public sector. In **Ethics on Screen 1**, we discussed the documentary on embezzlement by the financial controller of an American town, enabled by lax accountability and governance. In **Ethics in Action 3.2**, we introduced the Swedish, privately owned, medium-sized firm Nudie Jeans, discussing how the founders' values pervade the business, and we reflected on the case of TOMS' 'one-for-one model' as a social enterprise in **Case 10. Ethics in Action 6.3** shines the light on the special case of family firms such as the Canadian company, George Weston Limited, founded in 1882, and the long-term perspective of 'patient capital'. In the same chapter, the different nature of co-operatives as hybrid organizations, which have a stated dual purpose of social/environmental and economic success, was discussed. All of these models of business have long existed, though they have perhaps become more prominent recently in the search for a new approach to responsible business practice. A relatively new phenomenon is the gig economy and new business models that are emerging out of the sharing economy and more collaborative models of consumption. Both of these themes are discussed in Chapters 7 and 8, with examples such as Uber and AirbnB. Finally, in **Ethics in Action 8.2**, we also reflect on the role of microfinance and newer, more flexible business models that are bringing financial services to consumers at the bottom of the global economic pyramid. The rising recognition of the precarious work that is part of many of the emerging—as well as some well-established—business models is a feature of recent years, which has important consequences for the attention given to the plight of those whose labour enables business and consumer prosperity.

Understanding the implications of alternative business models in relation to the standard textbook model of the multinational corporation cracks the study of business ethics wide open. While some of you will end up working in MNCs, many of you will not—and even those who do will be part of global value chains which encompass a whole range of organizations. Or you might find yourself in a business which is competing with a social enterprise—what might the ethical challenges be then? Could you meaningfully compete with a hybrid organization on ethical credentials if you are a private sector business? There is a wealth of learning still to be done about business ethics in alternative organizational forms and how these arrangements offer new insights into our understanding of corporate citizenship and stakeholders in general. Indeed, we might think about a 'blurring of boundaries' between traditionally distinct forms of organizations, a theme picked up in **Ethics in Action 2.3**, when we considered changing responsibilities in India's Garment Hub. This idea even stretches to the broad range of Practitioner

Spotlights we have featured in this textbook that point to how the evolving responsibilities of business in globalized society demand new skills sets. For instance, Anne Euler, Sustainability Director at GSMA, who is profiled in Chapter 10, sees the key to solving sustainability challenges lying in partnerships, working together and encouraging active dialogue across sectors. This all points to a more fluid climate for business ethics—a climate buoyed by our final theme of digitalization.

DIGITALIZATION

In previous editions of this textbook, we had standalone 'Ethics Online' sections, where we examined topical business ethics issues on the internet. While valuable, in this edition of the textbook, these insights are firmly embedded within the text. The reason for this is that we can no longer see the digital sphere as a separate context; it is an enduring and fundamentally integrated part of our day-to-day lives, and by proxy, business operations. We have brought this transition to life by reflecting on the changing roles and responsibilities of businesses and stakeholders in an increasingly digital world through key examples and concepts throughout the text.

At the most basic level, while they may be things you have grown up with, information and digital technologies, such as social media, have become new conduits for transmitting CSR messages and building more democratic relations with stakeholders, as we discussed in Chapter 5. We are seeing ICT propel scattered voices across geographies to harmonize and drive real societal change, whether this be in the context of 'virtual vigilantes', such as the hacktivist group 'Anonymous', or consumer groups such as 'Carrotmob' that encourage patronage to reward business 'good behaviour'. At a more fundamental level, we saw in Chapter 8 how digitalization is shifting our consumption habits to become more dematerialized and 'liquid' (Bardhi and Eckhardt 2017). This point is evidenced by the growth in digital cryptocurrencies, a phenomenon we discuss in **Ethics in Action 6.2**. Yet, at a deeper level, digitalization is also shaping our perceptions of responsible practice more profoundly, creating new challenges for business ethics. Take **Ethics in Action 10.2**, which discusses the benefits and challenges of 'big data' in the context of human exploitation. Big data (or advanced data analytics, often utilized through digital means) may provide early detection of humanitarian issues such as modern slavery, or aid in developing responses to natural disasters. But as many industries including insurance, healthcare, finance, and even civil society turn to automation in the pursuit of efficiency, ethical questions now surround the algorithms that underpin the decisions that increasingly impact people's lives (Martin 2015). This issue is further picked up in **Ethics in Action 8.1** when we consider consumer privacy. How much does your smartphone know about you? Do you even know how your data is being used, or how you can control it?

Yes, digital technology is facilitating new kinds of interactions between market, civil, and state sector actors, but it is also creating a whole host of 'dirty tricks' and new risks in driving society towards greater censorship and surveillance. The ethical goalposts are continually shifting and static rules and regulations are struggling to keep abreast of high-velocity business practice in the digital realm. As calls for greater transparency and accountability in the technology and media companies that govern our digital lives—the likes of Facebook, Google, and Amazon—continue to gather pace, this textbook provides tools, techniques, and critical questions that can be used to evaluate business practice in a digital world.

GLOBALIZATION AS A CONTEXT FOR BUSINESS ETHICS

One of the main subjects covered in Chapter 1 was the context for business ethics provided by globalization. The subsequent chapters vividly illustrated that global economic, social, and political activities are constantly shaping and reshaping the role and context of business ethics. As we particularly emphasized in each of the stakeholder chapters in Part B, globalization results in a very specific demand for innovation in all firm–stakeholder relations.

The first aspect of globalization is that much corporate activity takes place in multiple national contexts. We have explained how shareholders, employees, consumers, suppliers, competitors, CSOs, and governments might all conceivably be located in other continents. As we said in Chapter 1, this typically exposes companies to different *cultural* and *legal* environments that leave considerable discretion to managers in determining and upholding ethical standards. While some studies point to multinationals taking advantage of this situation to essentially 'export' their irresponsible practices to their subsidiaries (Surroca, Tribó, and Zahra 2013) and suppliers (Soundararajan, Spence, and Rees 2018) in the developing world, others point to the key role played by local mid-level managers in these subsidiaries for driving social responsibility initiatives in host countries (Reimann et al. 2012). These questions of how Western companies engage with ethical issues in developing countries remain towards the top of the business ethics agenda, not least in light of the UN Sustainable Development Goals (introduced in Chapter 1), which promote business as having a responsibility for major global challenges.

A particular focus for us in discussing the consequences of globalization in this respect has been on emerging economies, such as the BRICS countries of Brazil, Russia, India, China, and South Africa. These have increasingly accounted for a significant proportion of global trade, and have become hugely important contexts for studying and practising business ethics. Some authors, for example, suggest that countries such as China (Ip 2009) and India (Berger and Herstein 2014) have unique cultures that require different understandings and models of business ethics.

Such attention to the ethics of BRICS countries is not just about Western companies doing business overseas or sourcing from emerging economies. The BRICS countries have also increasingly developed multinationals of their own that have a significant social, ethical, and environmental impact on other countries. For example, when the Brazilian private equity firm 3G Capital took over the Canadian coffee chain Tim Hortons, vigorous cost-cutting saw major job losses and cutbacks to the firm's lauded sustainability initiatives, not least moving in the wrong direction in sustainability terms from china cups to disposable ones (Tencer 2015). On the other hand, the Indian multinational Tata Sons, which is well known for its commitment to social responsibility at home, has also been active in Africa since the 1970s and asserts that it 'is involved in a range of community initiatives in Africa to stay true to its values and business ethos and contribute to the social and economic development of the continent.'[2] More broadly, Chinese multinationals in the resource sector have also made major inroads into Africa, raising important questions about their employment practices, community engagement, and impact on development (Miska, Witt, and Stahl 2016). Clearly, Chinese companies operate differently to their Western counterparts in such contexts, but it is too early to be clear on all the outcomes. The question of how emerging economy multinationals address their social responsibilities overseas will continue to be a growing part of the debates around business ethics.

On a second level, we suggested at the outset that globalization creates a social space beyond the governing influence of single nation states. We particularly reiterated this in the context of global financial markets in Chapter 6, and the global regulation and civil regulation of corporations in Chapters 10 and 11. For many business ethics problems, no single nation state is able to regulate and control corporate actors, especially in contexts such as global financial markets. We have argued that a firmer governmental grip on such spaces is difficult to achieve. We also explored some of the mechanisms that have led to many other corporate activities escaping the direct control of nation states. This 'transnational space' creates an interesting arena where corporate actors appear to currently dominate the scene. This does not mean that ethical norms are not present here, but these spaces lack full governmental authority to effectively control corporate action. Especially in Chapters 10 and 11, we have discussed ways of filling this gap by self-regulation, or by selected initiatives of global CSOs, or even by initiatives driven by the UN. Attention is now shifting to examine how hybrid governance might work where traditional state-based regulation interacts with business self-regulation to achieve outcomes in the transnational space rather than simply seeing them as discrete alternatives (Blair 2016). Such considerations will no doubt be an area of increasing activity and interest in the future.

SUSTAINABILITY AS A GOAL FOR BUSINESS ETHICS

The next major issue we raised in Chapter 1 was that of sustainability as a goal for business ethics. Throughout the chapters in the second half of the book, we discussed the nature of this goal and its challenges, and suggested some of the steps that corporations might take in order to enhance sustainability in the context of different stakeholder relations. We have found that in different contexts, contributions can be made in the different 'corners', as it were, of the sustainability triangle (see **Figure 1.3**), as well as in providing a more even balancing of the triple bottom line of sustainability. Significant progress in sustainability reporting, sustainability share indices, industrial ecosystems, product recapture, and civil and intergovernmental regulation has been made and bodes reasonably well for the future. The Sustainable Development Goals (SDGs) are by no means perfect, but they too help to maintain the prominence and legitimacy of sustainability as a goal for business ethics.

However one looks at it, though, the challenge posed by sustainability for business ethics is a huge one. Appropriate balancing of the triple bottom line is extremely difficult to engineer, even if corporations have the will to attempt it. Some of our discussions around sustainability in the area of employees, consumers, suppliers, etc. have been quite speculative and potentially threatening to existing corporate ways of thinking, organizing, and behaving. Ultimately, sustainability implies goals that lie beyond the time horizons of business, and which might be thought to jeopardize traditional bottom-line goals. Progress towards sustainable solutions, therefore, appears to be possible, but slow, tentative, and at present often merely exploratory.

What more can be said about sustainability? Our reflections in Chapter 11 have already been rather critical of the role of corporations in the sustainability area. This leaves us to reiterate two main conclusions. First, the triple bottom-line definition of sustainability obfuscates the fact that corporations tend to focus primarily on *economic* aspects, and even the majority of companies pressing for greater sustainability tend to mainly emphasize *environmental* dimensions at the expense of *social* interests. There is often a trade-off between the different elements and, especially in the context of developing countries, many of those likely to be affected lack sufficient power and influence to have their interests effectively heard and represented.

Secondly, without strong governments issuing legislation and/or developing new institutional arrangements (such as carbon markets), business progress is unlikely to be sufficient to meet sustainability goals. As much as we have identified the eroding effects of globalization and increasing corporate power on governmental authority, sustainability is likely to demand that governmental actors—perhaps in concert with CSOs and corporations—retain a significant degree of influence over the globalizing economy. Repeated calls by business leaders for governments to take more action on climate change suggest that we might see greater attention to finding ways for regulation to provide the kind of incentives to business that help them positively align elements of the triple bottom line, rather than having to make trade-offs.[3]

CORPORATE CITIZENSHIP AND BUSINESS ETHICS

In Chapter 2, we introduced the concept of corporate citizenship (CC) as one step in a number of developments in conceptual frameworks for ethical behaviour in business. Indeed, the subtitle of this book suggests that much of the content is about how to manage CC in an era of globalization. When first talking about the concept, two major points were evident. On the one side, CC in the 'extended' view identifies the corporate involvement in the governance of *citizenship rights*, most notably social, civil, and political rights. On the other hand, we have reiterated throughout the book that alongside this role, the question of accountability automatically surfaces. We have discussed these issues throughout the book, especially in Part B, raising a number of serious issues for consideration.

With regard to the first claim—that corporations take up the governing of citizenship—Chapters 6 to 11 have provided a convincing, though nonetheless varied, impression. When discussing the relationship to shareholders, we identified quite a substantial influence of corporations over civil rights, most notably the right to property of this constituency. We then made an extensive survey of the various rights that corporations have to govern for their employees, many of which touched on their social and civil rights.

In the arena of consumers and CSOs, corporations often provide a channel through which the public expresses its political choices rather than going to the ballot box. Corporate involvement in lobbying, as well as self-regulation and voluntary codes of conduct, further underlines their role in areas of politics traditionally occupied predominantly by governments.

In the context of competitors and suppliers, corporations might like to use practices that ultimately focus on infringing or circumventing the mechanisms of the market. In so doing, they can determine prices and the range of choices that we as citizens ultimately have. Corporations, in this area, assume some responsibility over the way markets operate and remain functioning. Large corporations, in particular, have significant influence over their suppliers, and through this they can dictate the way in which products are manufactured. If a large corporation requires certain ethical standards from its suppliers, such as environmental quality or human rights protections, they have considerable power to shape the manner in which the entitlements of third parties are actually enacted.

On the side of accountability, the picture developed over the previous 11 chapters of this book is not very bright. We have identified considerable power on the part of shareholders through their right to vote and initiate shareholder activism. In some forms of governance, such as is found in continental Europe or in worker co-operatives, employees too can exert a reasonable amount of influence on corporations. Such 'industrial democracy', however, has until recently remained limited to the rather narrow scope of societal interest that is closely linked to the interest of the corporation as a whole (Donaghey and Reinecke 2018).

Consumers also have some, albeit quite limited, influence on corporations, since their approval or disapproval of the company's stance on certain ethical issues can be expressed through the market. But certainly the most direct control of corporations in this respect requires the involvement of CSOs and formal campaigns of action. Indeed, it is exactly this sector that will probably play a central role in holding corporations accountable for the way in which they participate in society in the future. Nonetheless, the lack of accountability and legitimacy of CSOs themselves arguably remains one of the weaker foundations of CSOs' power to act as proxies for citizens. CSO scandals, ranging from aid workers in disaster-torn areas abusing their positions of power, to poor governance, to excessive fund-raising cold calls on vulnerable people, have meant that the assumption of CSOs as good organizations has been critically undermined. Like business organizations, they too have a credibility problem and need to earn public trust going forward (Bennett 2018).

Nevertheless, the relationship between companies and governments remains the most profoundly problematic one. It is apparent that under-resourced governments have ceded some influence and power to corporations—even in terms of their own party funding—but in the period following the global financial crisis there has been something of a repositioning of the governmental role in much of the world, though not always for the benefit of ethics, responsibility, and sustainability. While in some countries this took the form of taking private sector business into public ownership, in the USA President Trump's era seems to be characterized by rolling back government support and intervention on social welfare and environmental issues. The *Boston Globe*, for example, claimed that Trump was 'breaking the environment beyond repair'.[4] If anything, our discussions highlight the major gap between the influence of corporations on citizenship rights and the subsequent control and accountability issues involved for citizens. Throughout the book, we clearly identify this institutional void; however, we also show some potential ways in which each stakeholder group can use existing links in order to fill this gap.

THE CONTRIBUTION OF NORMATIVE ETHICAL THEORIES TO BUSINESS ETHICS

In Chapter 3 we introduced normative ethical theories, suggesting that, in a pluralistic perspective, they can provide a number of important considerations for ethical decision-making in business. In so doing, we had already watered down the inherent claim of traditional ethical theories—that they provide codified rational solutions to every problem. Indeed, as you have progressed through the book it should have become extremely clear that these theories rarely provide us with a clear-cut, unambiguous, and non-controversial solution. As such, this book could be argued to be closer to a postmodern perspective than anything else: ethical theories are at best tools to inform the 'moral sentiment' of the decision-maker and cannot predetermine solutions from an abstract, theoretical, or wholly 'objective' point of view. Ultimately, ethical decisions are taken by actors in everyday business situations. Ethical theories might help to structure and rationalize some of the key aspects of those decisions, but their status can never be one that allows a moral judgement or decision to be made without effectively immersing in the real situation. This is one of the key reasons that we include the Ethics on Screen feature, since the medium of film allows us to immerse ourselves into 'real-life' situations and, as it were, live the reality of ethical decision-making in business. The Practitioner Spotlights also give a direct picture from the point of view of those working in and around the topic of business ethics. It is our hope that all who read this book better understand the reality of business ethics as a result, and some of you will be inspired to bring ethics directly into your working lives.

By positioning the role of ethical theory on this level, we by no means intend to play down the role of normative ethical theory (as a postmodernist would). These theories first of all help the individual actor to rationalize moral sentiments and to verbalize moral considerations in concrete business situations. Thus, we have emphasized the important role of ethical theory throughout the book, yet at the same time we have tried to encourage you to develop a critical perspective on theory. When discussing cases and the illustrative Ethics in Action contributions, our hope is that you will have discovered the value of ethical theories for communicating your views, and also for understanding the views and perspectives of others. Here, perhaps, the main value of ethical theories lies in the fact that they help to formulate and enable a discourse about ethical considerations in business decisions.

INFLUENCES ON ETHICAL DECISION-MAKING

In Chapter 4 we examined descriptive ethical theories. This helped us to understand the way in which people in organizations actually make decisions about business ethics. In the subsequent chapters we have made evident the enormous range and complexity of ethical problems that continue to occur in business, suggesting that the factors influencing unethical decision-making continue to have a substantial role to play. You can also reflect on how business ethics is embraced as part of daily practices and business decisions in the Practitioner Spotlight contributions.

Given the increasing internationalization of business discussed throughout the book, we might first suggest that the national and cultural influences on decision-making, at both the individual and situational level, will progressively become more important, but less clear-cut. Personal religious and cultural factors are increasingly challenged and reshaped by global business practices, and the influence of a specific, local, national context also shifts in the context of 'foreign' MNCs with global codes of practice.

Indeed, many of the more important influences identified in Chapter 4 were context-based, and were often informal and cultural aspects, such as the moral framing of ethical issues in the workplace, organizational norms, and work roles. This suggests that more formal efforts to target improved ethical decision-making, such as codes of conduct and voluntary regulation, might ultimately have fairly limited impact unless they presage a more profound culture shift in business organizations. Some prospects for hope might be evident here when we consider that the mere fact of actively taking part in designing codes and rules could conceivably lead businesses to a deeper consideration of values in the longer term. Perhaps this is a little optimistic, but the opportunities for doing so would be enhanced if businesses large and small continue to open themselves up to discourse with stakeholders—especially those that might challenge the dominant corporate mindset.

THE ROLE OF MANAGEMENT TOOLS IN BUSINESS ETHICS

In Chapter 5, the last chapter in the first part of the book, we discussed the management of business ethics. Therefore, unlike, for instance, a book on finance or marketing, Crane, Matten, Glozer, and Spence has just one chapter dedicated to what we would traditionally call management instruments and tools. This might strike you as odd, especially if you are a business or management student, but it shows that business ethics is about more than just managing with tools and techniques. To our mind, it is much more about expanding horizons, deepening understandings, and developing critical thinking about business practices and their impact on environment and society. The chapter on tools also suggests that business ethics is not really a separate branch of management at all. After all, it should be pretty clear by now that business ethics pertains to every traditional discipline of management, such as marketing, finance, strategy, etc., and more constitutes an additional set of criteria for typical decisions, and a different way of looking at 'normal' business situations.

This is not to say that the explicit management of business ethics is unimportant, and we have traced some of the potential for tools and techniques in the second part of the book. A crucial role, for example, is likely to be played by new forms of social auditing and reporting, particularly in helping customers, CSOs, and shareholders evaluate the corporation's performance against ethical criteria. This is closely linked to new forms of stakeholder dialogue that we discussed in Chapter 5. Employee participation, shareholder democracy, or business–CSO partnership, among other things that we discussed in Part B, clearly require active engagement by corporations with their stakeholders.

Another of the tools that we have made frequent reference to throughout Chapters 6 to 11 is codes of ethics. These are certainly one of the most commonly used tools of business ethics, and as we have discussed, the general lack of governmental regulation in a growing number of business areas means that codes are necessary to fill the rule-making gap. Certainly, in industry at the moment, codes and standards of various sorts have been the subject of enormous effort and interest. As we have discussed throughout the book, though, it remains to be seen where this development might lead and what real impact it might actually have in practice. Indeed, the multiplication and proliferation of more and more codes might actually be counterproductive to the original purpose of making decision-making more clear and companies more transparent and accountable. Moving forward, it will be important to explore how the 'market' for such codes plays out, and whether competition among different standards for companies' attention can actually be harnessed to improve corporate behaviour (Reinecke, Manning, and Von Hagen 2012).

THE ROLE OF DIFFERENT STAKEHOLDER CONSTITUENCIES IN BUSINESS ETHICS

In Chapter 2, we introduced a number of important concepts that help us to frame business ethics. Perhaps the most important of these was stakeholder theory, especially given that the major stakeholder constituencies of the corporation provided the structure for Part B of the book. Notwithstanding the fact that many managers will, in practice, probably deal with stakeholders on a much more instrumental basis, we have primarily developed a *normative* approach to stakeholder theory, namely the idea that certain groups have intrinsic rights and interests that need to be considered by managers. This has been an important element of the discussion in the second part of the book, not least because stakeholder rights often form the basis of many ethical issues and problems faced by business.

In Chapters 6 to 11, we discussed each individual stakeholder group separately, and it might appear as if they were all equally important to the corporation. Although in a certain sense they are, their significance certainly varies in different contexts, issues, and topics. *Shareholders* obviously remain a key stakeholder group for the corporation, especially at a time when globalized financial markets confront companies with the necessity to source their capital on a global level.

Employees count among the most long-standing stakeholder groups of every business operation. In Europe and some other national contexts, there is still considerable ground for expecting employees to be a dominant stakeholder group, especially given the strong legal position this group generally has. However, new working practices, increased flexibilization, the rise of modern slavery and forced labour, and challenges to legally codified protections all appear to have weakened the stake of employees somewhat in recent years. In the developing world, employee rights might be yet more open to contestation and abuse, requiring considerable attention to new practices and protections.

The role of *consumers* is particularly interesting, since, although they have always been of utmost *instrumental* importance to business, their *normative* claims would seem to be somewhat weaker than those of certain other constituencies. While consumers might easily simply transfer their attention to another product or supplier, groups such as employees, suppliers, and local communities are more 'locked in' to the corporation and cannot so easily switch to an alternative. Nonetheless, it is easy to miss the fact that although the satisfaction of consumers appears to be in the self-interest of corporations, there is still much scope for exploitation and abuse of consumer rights. That said, the power of some consumers to exercise ethical purchasing—or boycotting—is likely to sustain corporations' attention to consumers' ethical concerns.

The stake of *suppliers* appears to be one that, although quite strong in certain contexts and industries, often has little legal protection, and will in practice often depend on the relative power balance with the corporation. *Competitors*, meanwhile, have one of the more contestable stakes in a firm, and although they have certain in-built rights that need to be considered, they will often be one of the lowest priorities for corporations. Interestingly, in environmentally exposed industries, competitors might be more strongly considered because of their role in setting up take-back and recycling schemes, just as suppliers might play a major role where integrated networks of recovery are intended. With an increasing trend towards just-in-time production and specialization, as well as strategic alliances and joint ventures, certain industries are more closely tied to their competitors and suppliers than others—a tendency that may also vary across different cultures and countries.

The stake of *CSOs* and *governments* is certainly the most complex and dynamic at the current time. CSOs, on the one hand, have heralded and pushed crucial ethical issues in the past, even initiating long-term processes of change on the part of corporations to respond, adopt, and incorporate the issues at stake. Over the course of time, CSOs have contributed to mainstreaming business ethics, but the legitimacy of their stake remains open to contestation in specific cases. The relationship of business with government meanwhile seems to be developing in an even more controversial direction. While governments may have lost some of their traditional power in issuing and enforcing regulation, they have by no means decreased in importance as a stakeholder. The crucial innovation, though, is that the relationship develops more into a partnership rather than the previously dependent role of business. This applies to the national level, but increasingly also to the global level, as the UN SDGs and the UN Global Compact as an 'institutionalized arena for addressing global governance gaps' illustrate quite well (Rasche, Waddock, and McIntosh 2013).

TRADE-OFFS AND CONFLICTS BETWEEN DIFFERENT STAKEHOLDER GROUPS

One final point that should be made clear at this stage is that one of the most challenging tasks for ethical management is to achieve an effective and appropriate balance between *competing* stakeholder expectations and claims. Different stakeholders are likely to diverge in the demands they place on corporations, making even a supposedly 'ethical' response a matter of some disagreement. Moreover, as we saw in Chapter 5, companies may well make their assessments based on largely instrumental grounds, meaning that those unable or unwilling to influence the corporation may be neglected, regardless of any intrinsic rights they might have.

On the surface, expectations of shareholders could be seen as clashing with all other stakeholders' interests nearly by default, as many of the latter are most likely to have a negative impact on profits, at least in the short term. Looking at the negative side, one could argue, based on the numerous scandals we have discussed in this book (particularly in Chapter 6), that whenever shareholders are negatively affected we also see that other stakeholders, most notably employees and local communities, suffer as well from corruption and mismanagement. Looking at the ongoing popularity of ethical or—as we also termed it—socially responsible investment (SRI), we could argue that some of the most widely discussed and applied topics in business ethics in the business press are exactly those that attempt to reconcile shareholders' interests with those of other stakeholders. This 'business case' for business ethics is important, but it is critical that ethical issues are not always simply relegated to instrumental reasoning (Crane et al. 2014). Real rights and real responsibilities are at stake here.

More broadly, claims for more sustainability, accountability, and good citizenship from companies can be interpreted as demands for a better accommodation of the competing and conflicting interests of their various stakeholders. In a sense, managing business ethics is almost always a matter of navigating a path through situations of multiple expectations and values that are in conflict. An essential starting point in this process is the acknowledgement and understanding of these divergent positions—and therefore finding a way of enabling stakeholders to give voice to their values. Here we can expect quite a bit of development over the coming years, in an arena sometimes couched in terms of 'stakeholder dialogue' or, more optimistically, 'stakeholder democracy'. In the latter debate, the political metaphor of democracy is applied to the corporate engagement with stakeholders, suggesting that businesses are increasingly expected to allow all of their stakeholders opportunities to voice their interests and provide legitimate engagement in the governing of the corporation. In the context of our argument in this section, one of the key effects of these patterns of interaction would be to involve companies in a transparent process of simultaneous responses to divergent claims from various stakeholder constituencies.

SUMMARY

In this chapter we have reviewed the main themes that were introduced in Part A of the book, and have synthesized and summarized the main contributions subsequently made to these themes in Part B. We have concluded that the nature and scope of business ethics is likely to remain complex and ever evolving, with the prospect that the subject will be increasingly important in the years to come. We identified three emerging and important cross-cutting areas at the time of writing to be gender and other inequalities, alternative business models, and digitalization. We explained how globalization has dramatically reshaped the role and context of business ethics, while sustainability has presented an important, yet extremely challenging, goal for business ethics to contend with. We then provided a summary of the different stakeholder contributions to our understanding of corporate citizenship thinking. In the remainder of the chapter, we assessed the contribution of ethical theory, ethical decision-making, and business ethics management to our discussions in Part B. Here, we highlighted the need for a pragmatic, pluralistic approach that was both sensitive to the variety of contexts that corporations and managers are involved in, and that went beyond mere adherence to codified laws and procedures. Finally, we analysed the relative importance and relevance of each of the different stakeholder groups discussed in Part B, then went on to emphasize the profound problems of balancing competing stakeholder interests.

We hope that in reading this book, and thinking and talking about the issues and ideas that were raised, you will be better equipped to respond to the complex yet fascinating problems of business ethics. At the very least, we would like to think that we have opened your eyes to new problems and perspectives and hopefully excited you about the real-world challenges of business ethics. If the theories, concepts, and tools that you have learned along the way enable you to make better ethical decisions—by using empathy, imagination, and good judgement—then so much the better. The world of business ethics awaits you.

STUDY QUESTIONS

1. What do you think will be the major new ethical issues and problems that businesses will have to face over the next decade? Do you see the themes of gender and other inequalities, alternative business models, and digitalization gathering pace, or decelerating on business agendas in future years?
2. Compare the challenges posed by globalization and sustainability to business ethics thinking and practice. Which do you think will prove to be the greatest challenge?
3. What are the particular ethical problems and issues that are likely to be faced by companies from emerging economies? What approaches to business ethics thinking and practice are likely to be appealing and suitable for such companies?
4. What are the major implications of corporate citizenship ideas for each major stakeholder group? How well placed is each group to influence the decisions and actions of corporations?
5. What are the benefits and drawbacks of adopting a pluralistic approach to normative ethical theory in business ethics?
6. Account for the prevalence of ethical codes in global business. To what extent do you consider such a development to be beneficial to the improvement of business ethics?

RESEARCH EXERCISE

Select a controversial mining project currently underway in your country, or involving a multinational company domiciled in your country, and research main stakeholders and ethical issues involved in the project. You might want to consult websites of major extraction companies, such as Anglo American, Barrick Gold, BHP Billiton, Freeport-McMoRan, Glencore, Rio Tinto, or Vale and/or review websites dedicated to identifying mining conflicts and empowering communities such as the following:

- Miningwatch Canada: http://www.miningwatch.ca.
- Latin American Mining Conflict Observatory: http://www.conflictosmineros.net.
- Mines and Communities: http://www.minesandcommunities.org.

1. Who are the main stakeholders involved in the project and what are their main concerns and interests?
2. Provide a ranking of these stakeholders according to either instrumental or normative principles, listing the criteria used in your ranking.
3. What methods has the company adopted so far in incorporating the interests of these stakeholders in its decision-making?
4. How would you recommend it proceed to enhance its stakeholder democracy?

KEY READINGS

1. **Martin, K. 2015. Ethical issues in big data. *MIS Quarterly*, 14 (2): 67–85.**
   In this article, Kirsten Martin takes a forensic look at the Big Data Industry. This is a great article for sifting through the whorl of media attention and misunderstanding around the use, abuse, and ethical issues relating to Big Data. She also makes recommendations for businesses to address some of the issues relating to data stewardship, due process of data, and data integrity.
2. **Grosser, K., Moon, J., and Nelson, J.A. 2017. Gender, business ethics, and corporate social responsibility: assessing and refocusing a conversation. *Business Ethics Quarterly*, 27 (4): 541–67.**
   This article, written by Kate Grosser, Jeremy Moon, and Jane Nelson, gives a really helpful overview of the place of gender in the field of business ethics and how and why it has changed over the years. It provides some really useful clarification on foundational issues, definitions, and meanings. Among many other valuable and useful reflections, they argue for the importance of going beyond narrow understandings of difference between men and women to a much more meaningful and sophisticated feminist critique of business and business ethics.

Visit the online resources for further key reading suggestions.

NOTES

[1] https://www.psa.ac.uk/insight-plus/feminism-fourth-wave.

[2] See http://www.tataafrica.com/Our_commitment/community_initiatives.htm.

[3] https://www.reuters.com/article/us-g20-climatechange-idUSKBN16S1W3.

[4] https://www.bostonglobe.com/opinion/2018/02/20/trump-breaking-environment-beyond-repair/sc8K-g39ehzrMCh7jBKNtlJ/story.html.

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