

Business Ethics – Shortfalls in Approach

Abdus Sattar Abbasi (PhD Scholar)

NUML, Islamabad, Pakistan

Address: Searle Pakistan, First Floor NIC Building

Abbasi Shaheed Road, Karachi, Pakistan

Tel: +92 300 5200567 (Pakistan)

Tel: +992 917 765022 (Tajikistan)

E-mail: abbasi_phd@yahoo.com

Abstract:

This article covers the contemporary concept of business ethics and tries to identify lack of sincerity in day to day financial and non-financial business transactions. In general, business practitioners move around profit maximization. But now probably business needs to go little beyond to develop pure and strong bonds with all stakeholders. Although Max Weber argued that “the spirit of capitalism” is free from ostentation, unnecessary expenditure, the conscious enjoyment of power, and outward signs of social recognition. And many others described commitment, loyalty and honesty as important dimensions of business ethics. But today’s business environment exhibits entirely different image. This article is an effort towards identifying areas of improvement in an approach towards business ethics. This article also presents a new model for strengthening corporate reputation and ensuring bottom line through standardization of values, internalization of ethics and partnering all stakeholders of organization.

Key Words: Business Ethics, Internalization, Reputation, Universalism, Profiteers, Philanthropy.

Introduction

Though in the history of Business dates back to the era of Barter; with the advent of Industrial Revolution, came drastic changes in the Mechanics of Business World. In the last century, numerous theorists put forward their views about Business Ethics. The purpose of this article is to bring together the approaches of experts on business ethics, who are working to help business management to deal with the ethical dilemmas associated with this sector. This article is an endeavour to identify shortfalls in most of these approaches, because, in spite of great deal of work on business ethics we still notice high profile business scandals. Therefore, there is a widespread discussion on the status of ethical practices in business. This article tries to shun the smoke in fixing the confusion in practicing business ethics in true sense. It provides new dimensions for the way forward to establish good reputation in the market. The new model presented in this article gives solid grounds for good business performance.

Identifying Some Shortfalls

Steve Barrile (2002) mentioned that ethics in business are the values and standards that guide the behavior of executives, managers, and employees - like the ethics that guide the behavior of individuals in their private lives, ethics for managers, and their subsequent behavior, are the result of many influences. These influences include personal value system, company policy and legislation. After this reasonable argument, Barrile in the same article mentioned that business ethics 'lines in the sand' are not always clear-cut.

Business ethics are clear and evident. No one company in the world can justify kick backs, frauds, bribery, etc. While they are promoting business ethics, most of the experts are found trapped in a fear. They often provide business with a room through notions such as 'business ethics lines in the sand'. If there were a merit all around the business activity, there

would be no need for any unethical practice. Unethical practices come to the fore only when the enterprises foresee a chance of losing profits through proper means. But this has been proved with many examples in the history that profit making through unethical practices usually leads to failure.

Marilyn Laurie (2005) cited that CEO research firm reports that they are now pressured to examine a candidate's private conduct as well as business accomplishments. Cheating on expense accounts, unwanted sexual advances, drinking problems....any breach of integrity – like not telling the truth to your employees, your secretary, any one you do business with – or a couple of indiscreet e-mails – and you are toast.

This is the realization and outcome of continuous observation and evaluation of business practices of executives and managers. But we still hear apprehensive comments from eminent global leaders, as after Enron scandal, President Bush said, "We've got to be ethical in big businesses!" (R. Edward Freeman 2002).

One is either ethical or not ethical. If one is ethical, he/she will be ethical in every sphere of business, whether small or big. If a person cheats in private or personal life, he will probably do so in professional life, too. Therefore, we have to draw a clear demarcation line between ethical and unethical practices during business activities. We have to be absolutely clear and we have to reduce gray areas as much as possible, while evaluating and deciding about ethical and unethical practices in business.

Marilyn Laurie (2005) used the term 'strategic philanthropy', which projects insincere approach. Philanthropy is philanthropy. If it is strategic, it means it has hidden agenda. We should be honest in admitting that the intention of strategic philanthropy is to gain more benefits for donors than beneficiaries.

Brayant C. Broder (2002) said that many philosophers consider ethics to be “science of conduct”. Ethics involve learning what is right and wrong, then doing the right thing – right? It may sound easy, but the “right thing” is not nearly as straight forward and self evident as conveyed in a great deal of literature.

To opt the right path, we need patience and sacrifice, particularly when we are divided between personal gain and loss. Today our business environment is not ready to sacrifice personal interests at any cost, even at the height of crisis. For example, an employee of Starbucks charged those who came to the coffee shop for water during 9/11 (Ronald J Alsop, 2004). We should realize that there is no escape from ethics. Ultimately we have to accept that the ultimate solutions to most ethical dilemmas, is to embrace the moral principles. Otherwise we will remain entangled in the vicious cycle of unethical practices. We can stop long term damage to the humanity only through practicing ethics, which needs strong resolve for patience and sacrifice. Somehow, we realize that ethical behavior of business is necessary for society, but we fail to bring business totally on ethical track. Tyron W. Jackson (2005) cited that companies like Wellcome has been called “robber – barons” and “profiteers” due to existing market based system of pricing medicines.

Chris Swinson (2005) cited “If you, as four people, take 40 million pounds sterling out of the company – quite legally, honestly, openly and transparently – on your way to burning 600 million pound sterling in cash, and end up putting 6500 people on the dole. I think your behavior has been appalling. I say you should look at the moral position”. He cited another quote about MG Rover crisis, “They betrayed the trust placed in them by their workers, the government and the public by burning through someone else’s money”.

The modern enterprises look after the interests of the stakeholders only when there is profit. As long as business is earning, the entrepreneur will be happy and will do good for the stakeholders, to keep them breathing for the sake of business. But as soon as enterprise feels threat, will leave every one alone and will try to consolidate the position through securing capital, as happened in case of MG Rover. Our business has not yet learned loosing together. If every stakeholder is at risk at the time of crisis, then why only business should have the liberty to secure the position.

People who don't recognize issues as moral will not act morally regarding those issues. It means those who commit wrong doings in business; they don't consider those wrong doings immoral. It has also been estimated that work place theft cost U.S. business \$ 40 billion each year (Joseph W. Weiss, 2003). Unethical practices have chain reaction properties: one unethical step will take the person to another ethically wrong practice. Ultimately wrong doers themselves may become victim of unethical practices. Thus whole society suffers with ethical dilemma.

Somehow, we deal with ethical dilemma quite conservatively and provide undue gray areas to accommodate unethical practices through different theoretical approaches. Ethical Relativism is the view that no universal standards or rules can be used to guide or evaluate the morality of an act, i.e., what is right for you may be wrong for me. But, lying, deceiving, fraud, bribery, kickbacks etc are wrong for all cultures and societies of the world. Therefore, we can sincerely narrow down our common interests to provide universally agreed code of business ethics. Joseph W. Weiss (2003) mentioned in his book that individuals who justify their morality only from their personal beliefs, without taking into consideration other principles, may use the logic of relativism as an excuse for not having or developing moral standards.

In utilitarianism an action is judged as right, good, or wrong on the basis of its consequences. The end of an action justifies the means taken to reach those ends. (Joseph W. Weiss 2003)

Let's take an example: Mr. Kami is given the task to quote and negotiate rates for construction of highway between two main cities. He wins the contract with the help of an official through information hacking to ensure lowest possible rates, an act for which he ought to offer bribe. For Mr. Kami and his organization end is good, but the question is that will it qualify on ethical grounds? Theories characterized by Utilitarianism are escape from universally accepted norms and standards of ethics. While practicing universally accepted ethics like truth, honesty, merit, etc, at one time organization/individual may gain or lose. But it is sure that the society as a whole will gain in the long run. We have to save the humanity, because humanity is our common heritage. Therefore we have to deal with ethical dilemma of business world vigilantly.

As compared to other approaches, Kant's Universalism is best suited to deal with ethical dilemma. But when there is a theory which is best suited, we think that we may not be able to implement it because of 'conflicting interests', (Joseph W. Weiss, 2003). Conflict in interests usually emerges due to lack of tolerance, patience, and respect for the rights of others. Learning through history proves that consequences of not acting responsibly and respectfully towards all individuals in the situation have always been worst. Therefore we should now resort to the fact that respecting everyone's interest is in fact respecting one's own interest. Protecting others' honor is in fact protecting one's own honor. Safeguarding rights of others means safeguarding your own rights in the long run.

According to M. Arsalan (2001) Weber's thesis says that the man who has the spirit of capitalism is reliable, honest, rational, courageous and work-oriented. In the PWE the gaining, saving and careful spending of money, which led to capital accumulation, was the main goal of life. This ethos was not an opportunistic and unscrupulous pursuit of self interest.

Weber's thesis may stand valid in the eyes of many, but in my opinion excessive accumulation of wealth leads to bread selfishness. Desire for multiplying wealth get strengthens, and individual get trapped in protecting and increasing capital at any case. This is the start of ethical dilemma, where capital gets the priority.

We have well structured codes of ethic in many organizations, but such organizations also suffer failures. Well-structured sentences alone cannot bring about changes in the behavior of individuals. To do so, are needed environment, grooming of people through trainings, and sincere courage to implement ethical practices in all business activities.

Reflections

Commenting on Enron's code of ethics Ronald J Alsop, (2004) says in his book that knowing now about Enron's downfall and how its top executives really did business, you feel as if you are reading not the actual ethics code but rather the script for a *Saturday Night Live* parody. Here are a few excerpts from the code and cover letter that truly give new meaning to the expression "empty words":

"We want to be proud of Enron and to know that it enjoys reputation for fairness and honesty and that it is respected.... Let's keep that reputation high."

"Ruthlessness, callousness, and arrogance don't belong here."

"We work with customers and prospects openly, honestly and sincerely."

“We are dedicated to conducting business according to all applicable local and international laws and regulations...and with the highest professional and ethical standards.”

Even the Smithsonian Institution in Washington, D. C., has acquired the Enron ethic ode for its collection of historical memorabilia.

All around our lives reality reflects the fact of our failure in establishing safe and secure working culture. Ronald J Alsop (2004) cited a report which stats that most unethical behavior happens in the following areas (listed in rank order starting from the organization that has the most instances of unethical behavior);

1. Government
2. Sales
3. Law
4. Media
5. Finance
6. Medicine
7. Banking
8. Manufacturing

A Wall Street Journal/NBC News poll 2002 found that fully 70 percent of Americans didn't trust the word of brokers and corporations. One third of respondents said they had “hardly any confidence” in big company executives –the highest proportion in more than three decades.

Modern age brought tremendous growth in knowledge, business development and prosperity, and probably the same trend in unethical practices. If we look at unethical incidences of recent past, we got an impression that with the development of economies around the globe, there is significant increase in unethical behavior. Figure # 1 is an attempt to depict the rise of

such behavior. This situation needs serious attention, because it may harm future business operations significantly.

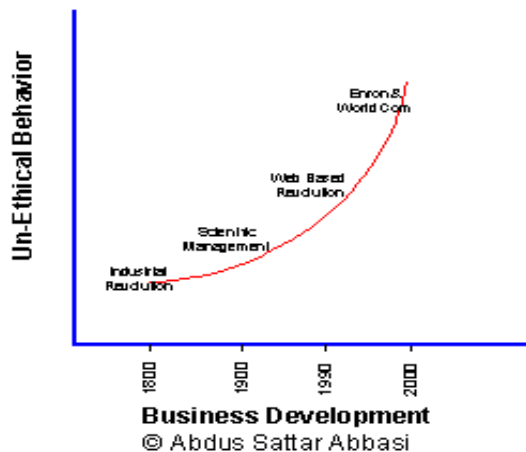


Figure # 1 PERCEIVED RISE IN UNETHICAL BEHAVIOR

This is business, but we can hardly claim any area of modern human life which did not jeopardize ethical frame work. From politics, judiciary, banking and health to entertainment you name any field and you are faced with ethical dilemma. Here are a few examples to indicate prevalent ethical behavior;

Politics: Khan M. (2002) mentioned in his article that US kept POWs of Afghanistan in Guantanamo Bay, Cuba to remain outside the jurisdiction of American courts. If these prisoners were on American soil, American courts could order that their rights be protected.

Judiciary: Jury of Enron’s financial crisis said, “They had found one and only one Anderson employee who had acted to intentionally deceive the investing public. That employee was not an accountant; it was Nancy Temple, a Harvard trained lawyer at Anderson who had advised the audit team at Enron about what information they should disclose and what documents they should destroy”. (www.legalethicsandreforms.com)

Health: Bristol-Myers Squib Co. agreed to pay \$300 millions in a deal to defer federal prosecution of conspiracy charges stemming from an accounting scandal. (www.phillyburbs.com)

Entertainment: When Sony BMG Music Entertainment, the second largest record company of US settled with New York Atty. Gen. Eliot Spitzer in July and agreed to pay \$ 10 Million for engaging in “pay-for-play” practices, Spitzer said such corruption reached “the very top of the industry”. (www.sheldensays.com)

The Way Forward

To strengthen the reputation and to ensure the bottom line organizations have to adopt the following pattern;

1. Standardization of Values
2. Internalization of Ethics
3. Partnering all Stakeholders

Most important is the standardization of values. While talking values we usually get trapped between shareholders’s interest and moral responsibilities. I agree with Freeman’s (2002) remarks that our idea of good management has been hijacked by a view that says “Management’s only obligation is to maximize shareholder’s value”, is a very narrow sense of that term. What’s doing the damage is this false idea of good management. We have to return to the basis of what good management is. To do that, we have to stop separating business from ethics.

Internalization is the next important step. Kim B Clark (2003) said that business is a remarkably dynamic and quite powerful force in society, and the individuals who lead businesses are called upon to play increasingly broader roles. We have made markets much more dynamic

and far more pervasive in our economy—with a host of good effects. But in the process, we have weakened critical institutions and the principles and standards of judgment that ought to stand as a protection against conflicts of interest. We need leaders who are prepared to act on principle, with standards and values to guide them, even in the face of strong financial incentives to do otherwise. In fact, we need a lot of those people throughout our system. We need individuals who, through their experiences, have learned how to internalize high standards and principles. They in turn need a system of governance—of checks and balances—that helps them do the right thing when faced with difficult situations. The first step will be to find ways to reduce conflicts of interest, and to shore up standards and principles and institutions of governance. The second involves strengthening the integrity of leaders in business. We need leaders with integrity.

Integrity is more than being honest, although it certainly means that. It is deeper. It is about the match between what leaders say and what they do. Leaders with integrity have strong values and standards and principles, and they act on them--consistently, without fail, in public and in private. Such leaders inspire trust and confidence in those around them, and the values they espouse become reality in the organizations they lead, because people act on them and live them in their organization.

Peterson P. (2002) said that we've got what I call a moral cancer or governance cancer and it's going to metastasize if we don't cut out this thing in a hurry or as soon as we can into an economic cancer. George W. (2002) said that the extreme excesses of what is really a lot of greed in our system, greed on the investment side, obviously greed on the accounting side and greed on the corporate side.

Prof. Pomeranz F. quoted Edmonds (1993) that individuals, who are susceptible to transgressions, erroneously focus on people and things rather than on principles and values. Then

he said, therefore, training emphasis should be placed on values and principles, rather than on work. Refocusing on values promotes security and confidence and strengthens resistance to temptation (Islamic-finance.net). A Rehman (1996) mentioned that one aspect is to recruit...those who are most likely to have values and virtues This dimension requires a stringent screening mechanism The second aspect...consists of...continual on-the-job-education in the aforementioned values and virtues One...incentive mechanism is to keep an employee well-paid; another is to appoint an employee on a probationary basis, until the internalization of the values and virtues in question has been demonstrated (Islamic-finance.net).

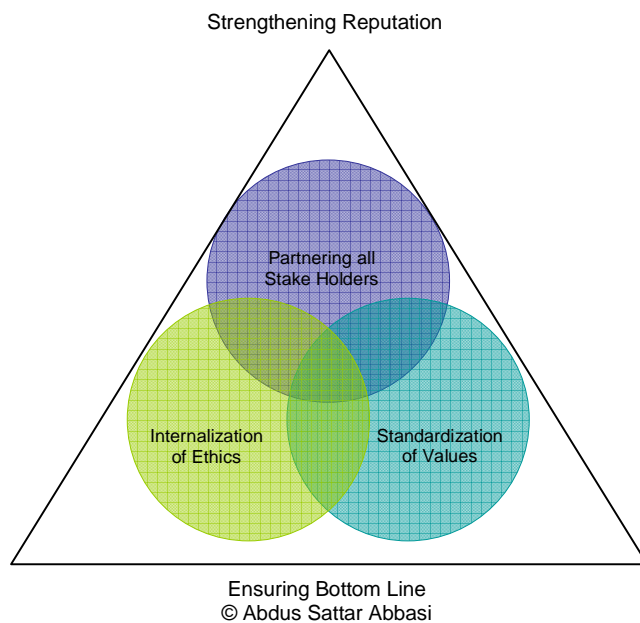


Figure: 2 SIP MODEL

Starzyk D. K. quoted Navran F. (1997) that he said best practices are easier to describe than to implement and required a desire to build a working environment based on respect and concern for doing the right thing in the right way. Starzyk D. K. (2006) says ethical leadership encompasses the whole person, both personally and professionally, internally through beliefs and

externally through conduct. The goal of corporate leadership, then, is to foster an environment that allows employees to internalize these values, that is, to make these values their own.

Starzyk D. K. (2006) further said that ethical practices hold great potential for meeting increasing stakeholder obligations over the long-term, while unethical actions hold even greater potential for irreversible harm.

Most important factor to come out of ethical dilemma is the environment. Now organizations need an environment where every member of the organization should help others in good and ethical deeds, but don't cooperate in wrong and unethical practices, rather they stop and discourage each other to do so. In general there are three categories of people, one those who will opt wrongdoings in any case, the other which will remain ethical in any case, but the third, and the vast majority, is the group which is subject to environment. If an organization can foster the culture where people invite each other for good and enjoy what is right and forbid each other what is wrong, then this vast majority can bring significant change in ethical practices in organizations.

Conclusion

Conclusively, it is suggested that the Business World goes beyond Individualism, Relativism and Utilitarianism to create balance which may ensure protection of rights of every stakeholder of business. A lot has yet to be done to hit a balance among Business, Employee and Society. To deal with the ethical dilemma in business activities, we surely need to rise above the vested interests such as those of business equity; and to inculcate courage in the Entrepreneurs to practise Business Ethics in the true sense of the Term.

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