CREATING VALUE IN BUSINESS THROUGH ETHICS ?

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Introduction

The public has been inundated with reports of major breakdowns in business ethics in recent years. Enron, Parmalat, ABB, Arthur Andersen, WorldCom, Qwest, Global Crossing, Skandia, Adelphia, Tyco, Ahold, Holzman etc. have helped the issue of ethical business behaviour achieve widespread but uneasy notoriety. Are these case merely the tip of the iceberg ? How extensive are unethical behaviours at lower and middle levels of management ? Are small business managers and entrepreneurs any better ? One can also notice that writings about business ethics have been very topical for quite some time already: Kelemen and Peltonen (2001) found about 20,500 pages and 1,154 books on business ethics in the Internet. At the same time, concerns with organisational codes of ethics have intensified from the 1990s on. By 1992 the proportion of these organisational artefacts has increased to 93 percent of U.S. firms and 83 percent of firms in North America and Europe (Adams et al., 2001).

There is some research evidence showing that respondents from companies with codes of ethics rate role set members (top management, supervisors, peers, subordinates, self) as more ethical and feel more encouraged and support for ethical behaviour than respondents from companies without codes. These studies state that the mere presence of a code of ethics appears to have a positive impact on perceptions of ethical behaviour in organisations, even when respondents cannot recall specific content of the code (ibid). On the other hand, some other studies show that codes of ethics can't help in solving the most difficult ethical problems in business (Miettinen, 2004).

A classical statement about the nature of ethics recalls the three factors that Aristotle took into account already more than 23 centuries ago when formulating an issue of "becoming good". In *Nicomachean Ethics* he wrote: "Now some think that we are made good by nature, others by habituation, others by teaching" (X, 9, 1179b, 20-21). His position is well known: to become good, rational instruction does not surface, foe ethics is not purely speculative nor normative discipline but a practical one. Human behaviour is not guided by reasoning only, but in Aristotle's view, one must have been guided by good habits (NE 1, 4). Modern objections to a classical statement about the nature of ethics in business seem to confirm this notion, although we live and operate under very different conditions – in a globalising, multicultural, pluralistic society, where "ethical consensus is apparently reduced to a minimum" (Gonzáles, 2003), which seems to exclude traditional ideas of the good life. Technological and economic opportunities have escalated since Aristotle's days, but are we any more advanced ethically ? (see Appendix 1)

Poet Ed Willoc has harrowingly described the problem sometimes occurring between sound principles and actual behaviour stating the basic problem in practical ethics: why managers and executives who most probably know the rules and standards of good conduct have may break them ? Is the main motivation to justify individual success ? (Pursinainen, 2001) Do mangers have a propensity to capitalise on opportunities to be unethical, if those situations arise ?

> Mr. Business went to Mass,
> He never missed a Sunday;
> Mr. Business went to hell
> For what he did on Monday

What Managers Mean by "Ethical" ?

Ethics is basically a discipline about good life. What is then good corporate life ? Sethi (2003) has wondered, if the popular myth of a good business firm is still a financially successful and economically efficient enterprise that would combine profit-making with social responsibility. Furthermore, this stereotypical idyllic firm should provide stable and well-paid jobs (and rather create new genuine jobs) with generous benefits, support culture and the fine arts, pay its taxes with great pleasure, encourage employees to become involved in their communities and, "to be a good corporate citizen".

Edgar H. Schein (1968) draws some insightful conclusions and their implications in classical article "The Ethics of Management and The Management of Ethics". Firstly, his data supports the view that *ethics is personal.* Many other scholars have also shown that there is a fairly broad range of the perceptions of ethical behaviours and that every manager tends to have a more or less individualised set of ethical standards. For example, the author (Miettinen, 2004) has taken a longitudinal study covering a variety of ethical business issues among Finnish executives in 1981, 1993 and 2003. One of the items in this questionnaire –based survey asked the respondents to state, what they mean by ethical (particularly ethical behaviour) in the first place.

Table 1. What ethical – particularly ethical behaviour means ? (%)			
	1981 (N = 442)	1993 (N = 412)	2003 (N = 324)
About the same as legal	1	6	8
What corresponds to my personal interests	-	-	-
What I feel to be right	56	57	61
Normal behaviour in the society	10	6	7
What is good for most people	14	13	14
What corresponds to my religious views	4	1	1
What strengthens most personal freedom	-	-	-
Confirms "the golden rule"*	15	17	9
What I want in each situation	-	-	-

*"Always treat others as you would like them to treat you"

The findings above show that 'emotivistic' or 'subjective' ethics dominates among executives above 'objective ' ethics (i.e. the golden rule) and tends to lead to various interpretations about what is ethical and what is unethical. This perspective in ethical theory assumes that moral statements get their primary content through sentiments. This view has increased by five per cent in two decades.

Two other changes worth mentioning relate to fewer amount of respondents who define ethics according to religious reasoning (religious views and the golden rule). Finland is living more and more in a post-religious society: the proportion of the total population belonging to the Lutheran church has decreased from 95 per cent to 85 per cent in 22 years (the other 'state religion' is orthodox having only 1.6 % of the total population as its members). This is presumably seen also in the decreasing amount of executives basing their ethical attitudes on religious arguments. Anyway, the high proportion of population belonging to one dominating church tells something about the cultural homogeneity of the nation. The mean age of the executives in the three samples has been about 45 years meaning that the respondents went to the comprehensive school and junior high school in the 1940s, 1950s and 1960s, when the (Lutheran) religious impact was much stronger than today. Strong societal consensus has been in addition to religiosity one of the major factors in forming ethical climate in the country and in its business community.

The business ethics literature shows that religiosity plays a role in predicting ethical attitudes. According to a number of studies, respondent's level of religiosity is positively correlated their ethical attitudes both in studies employing situation-specific scenarios (Allmon et al., 2000; Barnett et al., 1996; Tepstra et al., 1993;

Wolkomir et al., 1997). The same conclusion can be drawn from studies using more general situations (i.e. Miesing and Preble, 1985).

Schein further concludes that *ethical beliefs of employees are similar to perceptions of top management ethic,* which may provide a viable opportunity to change and control employee behaviour. Two immediate psychological explanations are that employees either project their beliefs onto top management or else pattern their thoughts after this critical reference group. Individual perceptions of ethics of others are important since they have a direct link to one's own actions. An well-known folklore says that if you want to be ethical in business, find an ethical boss or an ethical owner.

Is Business Bluffing Ethical ?

Presumably yes. Wood and his colleagues concluded in their study in the late 1980s that "egoism and individualism were deeply engrained in the psyche of the current business student population. A substantial number were willing to resort to any means to achieve their interests (Wood et al., 1988)." Although this study like many other empirical investigations focus on students instead of practicing managers, it arouses many serious questions concerning the ethos of business. Are businessmen keenly interested in economic success only (i.e. Carson, 2003; Seidl, 1990)? Have they begun to loose the concept of truth ?

Dees and Starr (1992) ask what are the ethical dilemmas most characteristic of entrepreneurial management: the bahaviours, processes and skills developed in actual entrepreneurial management. In contrast to 'administrative management, "entrepreneurial management is the process of uncovering or developing an opportunity to *create value* through innovation, and pursuing that opportunity , despite initially possessing insufficient resources". Dees and Starr postulate three general categories of dilemmas in entrepreneurial management: promoter dilemmas, relationship dilemmas and innovator dilemmas.

The promoter dilemma relates the celebrated promoter mentality based on the unique skills and abilities of the entrepreneur to provide a vision of the future at odds with the conservative majority and organise against opportunities. This may lead to "entrepreneurial euphoria", which can be a self-fulfilling prophecy that inspires action and achievement, "can-do" optimism and enthusiasm often characteristic of the successful entrepreneurs. The essential question raised by the promoter dilemma is according to Feer and Starr what criteria should be used to distinguish productive societal impacts from immoral distortion and deceptive practices.

New venture creation and development is both social and economic enterprise, characterised by face-to-face relationships and informal networks. The advantages of network relationships have been largely scrutinised in the literature, mostly in positive light. However, the transformation of social networks into instrumental business relationships raises probability for conflicts of interests due to conflicting roles. Most relationships are initially built on trust, but later the transactional mode of interpersonal relationship of entrepreneurs is based more on instrumentality and the norms of reciprocity. Derived from this view is a notion of transactional ethics, which emphasises individuals as a means to an economic end, subject to manipulation and exploitation, too.

The entrepreneur may face ethical dilemmas arising out of the risks and costs inherent in innovation. Dees and Starr (1992) refer to "Frankenstein's problem" in this context. Dr. Frankenstein makes several attempts to avoid the responsibility of his creations, to run away, but he cannot. This problem seems to be particularly relevant in the case of some technological innovations, but administrative and social innovations may also potentially disturb community values (for example an innovative alcohol or AIDS hospice in a residential neighbourhood). So called new economy is to a large extent a technological revolution involving the information and communication technologies and which affects almost all aspects of the economy, business and people's personal lives. There is an ongoing debate whether a "new" ethics is needed to address the challenges it raises (Argandonâ, 2003; Frölich, 2000).

Referring to the follow-up study about Finnish executives mentioned above (Miettinen, 2004) most respondents in all three measurements were in the opinion that there are unethical industry practices:

Table 2. Are there industry practices which you consider unethical ? (%)			
	1981	1993	2003
No	5	4	6
Yes, a few	83	80	79
Don't know	5	5	8
Yes, many	7	12	7

The results have maintained rather stable over the past 22 years. By cross tabulating the samples according to the size of the companies and different types of industries (industry, trade, others) no significant differences were found (Chi-square testing). This result contradicts with some previous studies showing that members of small business were far more demanding than permissive in their ethical attitudes (Humphrey et al., 1993; Longenecker et al., 1988; Longenecker et al., 1989), although the authors conclude that small business respondents can not be characterised as "more" or "less" ethical strict overall.

Has the Ethics of Business Changed ?

Brenner and Molander (1977) were among the first ones to conduct a follow-up study on business ethics. Their intertemporal comparison covered the ethical perceptions of a large sample of managers in 1961 and 1976. Overall, they found that values have changed, with increasing or decreasing acceptance of ethically charged scenarios depending on the exact situation. For example, they showed that respondents in 1976 were less willing to pad expense accounts but more inclined but more inclined to hire a competitor's employee to obtain information than their 1961 counterparts. Further, respondents in 1976 report greater concerned over honesty in communication and prejudice in hiring, while concern over firing and layoff fairness, price discrimination and deceptive advertising had declined. The authors hypothesise that these changes may be the results of higher legal standards and increased government enforcement.

After this landmark there are not many studies which have taken a true longitudinal approach, sampling the same respondents over a number of years. Instead, attempts to measure changes in societal views on business ethics are more common. For example, Harich and Curren (1995) found that undergraduate business students were generally less tolerant of ethically questionable behaviour than those surveyed in 1984. Peterson et al. (1991) found no significant difference in the responses to 10 business ethics issues between 1980 and 1990. Zinkhan et al. (1989) found an increasing willingness of respondents (MBA students) deceptive advertising and bribery of sales agents. Emerson and Conroy (2004) concluded in their recent study that ethical attitudes of students appeared to have become higher over time. They found their results to be encouraging for the long term to the extent that current students are future business leaders.

As to the follow-up study of Finnish executives, there seemed to be some optimism concerning the development of the ethical level of business (Tables 3 and 4):

Table 3. The ethical level of business compared to that 10 years earlier. (%)			
	1981	1993	2003
Much lower	1	7	2
Somewhat lower	22	27	15
Same level	23	14	20
Somewhat higher	49	46	53
Considerably higher	6	6	10

Table 4. The development of the ethical level of business during next 5-10 years (%)*	
	2003
Will be much lower than now	2
Will be somewhat lower than now	4
Will maintain the same	27
Will change somewhat higher than now	57
Will change much higher than now	3

* This item was not in the 1981 and 1993 questionnaire

Cautious optimism seems to be the dominating view: 55 to 63 % of the respondents estimated that there has been improvements over the past decade while 17-34 % saw the changes taken place in the negative direction (Table 3). Looking at the future (Table 4), optimism was still prevailing and the proportion of skeptics was only 6 per cent.

Some scholars have proposed that societal values are generally stable, but may change gradually over time. For example, Lewis (1989) has posited that"…As people , civilizations, and organizations have matured, they have become more concerned with questions of ethical conduct… Apparent too are the shifts that we seem to make over time in our preference for a specific set of values." A further question is, if there are moral cycles in society. The evidence given above indicates that the changes over the past decades have been rather incremental than radical. There are shocking exceptions such as Enron and Parmalat, but the general trend seems to have been a gradual improvement. A most important single factor above all other factors according to executives has been behaviour of superiors: 72 % of the respondents in the Finnish study (2003 sample) were in the opinion that it has a major impact on the ethical climate and decisions in corporate life.

Anyway, situational factors may be at least as important as individual characteristics, or the interaction of individual and organisational context may better explain ethical lapses than either factor alone. Adams et al. (2001) conclude that the research on individual versus organisational impacts on ethical behaviour suggests that organisational context is an overriding influence on individual moral decisions made in organisations. Individuals may be capable of sophisticated levels of moral reasoning, but yet the perceived consequences of behaviour, the impact of manager's and peer's expectations and their influence as role models, high profit orientation , the interdependence created by organisational roles and culturally shared beliefs about the value of economic success have crucial influence on individual decision. Research has shown that individuals tend to attribute their behaviour and decisions to their organisation's reward structure and practice on their dependence on that system.

Ethics as a Positive Resource

Globalisation is a trend in economy that can hardly be stopped any more. It brings the issue of ethical pluralism to the business arena. Ethical pluralism is at the origin of many new ethical challenges that confront business, both in practice and theory (Gonzáles, 2003). The success of economic globalisation may tend toward social and cultural homogeneity. To the extent that cultural diversity is seen as an asset, this global trend seems to contradict the efforts to respect both personal and cultural ethical pluralism.

Gonzales (2003, 33) has asked, if it is possible to expand business while respecting cultural diversity and to what extent is ethical pluralism compatible with the globalisation of business ? Her answer is positive as long as it is noticed that business in a practice exerted by moral agents and inserted in moral context. Thus, business is subject not only to economic criteria, but to moral criteria as well. Ethical norms are necessary, but there is a risk to reduce moral criteria to extrinsic norms of the kind proposed by ethical minimalists. Minimalism assumes a static view of ethics, neglecting the fact that human beings and societies can change their views over time, and they often do when they find something better. Economic systems should have a capacity to renewal and revitalise themselves. Norm-based minimalism also tends to emphasise technical knowledge and favours "politically correct" language (Gonzáles, 2003), forgetting that ethics is not primarily

a matter of experts but rather a human matter and therefore a democratic in nature calling for a serious dialogue about ethical issues.

Ethical norms are necessary but presumably not sufficient to guide business actions. Even the principle of justice is a good example of certain relativism: in terms of fair competition we take the demand of equal starting points for all as granted, but in social policy it is widely accepted that we take more from the rich to deliver something to the poor.

Ethics is often considered something filled with restrictions and denials, overly negative things. Morals is equaled to moralism. This is particularly true in Northern Europe, where law-based ethics seems to outperform virtue ethics. It has been said that there are two moral worlds in Europe, areas of virtues and areas of law. The latter broke through in the 17th century with reformation, scientific world view and Immanuel Kant, "the philosopher of the protestants" and his ethics of responsibility (Elenius, 2003). According to Elenius, a general abstract theory of ethics was developed from the early 17th century on emphasising that "good" and "right" are adaptable to universal principles. Focus on special cases was labelled nonphilosophical. "Special, single and concrete were cut off ethics. The model came from physics and theories of Newton".

According to responsibility ethics, an act is a good one if it follows a norm by an authority. The impact of Kant strengthened particularly in protestant culture: people following seriously and strict autocratic cultural area "sprouting norms and rules" started to develop in the north. This movement forgot what Aristotle recommended in his Nicomachean ethics: good does not have a universal form, whatever matter or situation is there: a healthy moral reasoning always respects the detailed conditions of special cases.

In Kantian world, the external principles (laws) maintained order and discipline and secured a good life. No wonder that things such as welfare state attitudes, highly unionised labour market and collective bargaining still flourish there. State is a strong political structure that has even stolen the responsibility for one's own life in many cases and removed the risks personal threats to a large extent over to the public sector.

The opposite view considers morals as a resource or an asset giving yardsticks for good conduct – and hints when one should refuse to make unethical decisions or to exercise unethical behaviour. In this sense ethics is a part of human and particularly social capital. However, moral learning takes place during the decision and action process itself. With the accumulation of errors, this learning process may become more laborious and lengthy under the "new economy".

According to Argandonâ (2003), the new economy itself is neither good or bad, but laden with opportunities. There are dangers such as unnecessary destruction of opportunities, encouraging disloyalty and opportunistic conducts, violating copyright or privacy rights, increased insecurity and uncertainty. The final outcomes will not be due to the new technologies but rather of the decisions made by people "who invent, develop, distribute and use them".

Good business is never automatically good ethics. Good ethics may not pay off in a short run in business, but bad ethics will always deserve an uneasy end in a long run.

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Three debating points

1. What the recent scandals (such as Enron and Parmalat) tell about the value adding efforts of corporations: are these scandals only the tip of the iceberg ? Are small business managers any better than executives in large corporations ?

2. Can good business ethics add value in a globalising economy ?

3. Is ethical relativism outperforming other types of ethical reasoning in business life ? If so, what are the consequences ?

Appendix 1