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Ethics and Business

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To many, the old adage that business and ethics never mix, has been reinforced by the constant revelations of the various tribunals set up since the early 1990's. Laura Nash, Associate Professor at Boston University Graduate School of Management has stated *"Many an executive today voices cynicism at the relevance of moral inquiry to managerial practice. For many reasons from the external fact of greed to the very different ways in which we tend to think about managing and morality, ethics and business have often seemed if not downright contradictory, at least several worlds apart"* Commentators on Irish business practice might tend to agree with Nash as Irish company law has been characterised, by a culture of non compliance with only 13% of companies filing returns on time in 1997 to the Companies Office. Persistent breaches of the Companies Act, banking scandals, alleged payments to politicians, and company non compliance with many regulatory bodies, would lead most observers to believe that the question of business ethics has never been high on the agenda of certain Irish companies and entrepreneurs.

Business practice Irish style is best reflected in Howard Kilroy's, Outgoing Governor of Bank of Ireland, answer to a shareholder's question regarding the banks activities vis a vis DIRT tax at the Annual general meeting in early July. He stated *"It is difficult to imagine what the climate was 15 years ago. It happened in all the banks. We could spend all day talking about it. It was a time characterised by winks and nods in government and perhaps in other places too."* Whether this analysis of business practice and ongoing revelations has long term societal consequences is debatable, it certainly has awakened the interest of media and the Irish public at large in corporate malpractice.

The question of business ethics, the art of applying one's personal moral norms to the activities and goals of a business, has been top of the agenda of American business since the 1980s. Companies have witnessed the high costs of corporate scandals that have hit America, which included heavy fines, bad public relations, high employee turnover, and in many cases loss of market share and revenue. Major corporations such as Johnson & Johnson, Boeing, Xerox, Hewlett Packard and others have introduced ethics codes, social responsibility audits and ethics training to emphasise that high standards of personal conduct is an invaluable asset. A survey by Fortune 500 American companies in the manufacturing sector, and a further 500 in the services sector, revealed that;

- 91% had a written code of ethics;

- 49% had ethics training in place for all employees, and;
- 87% surveyed believed that the public is more aware of ethical issues in business than in the past.

While many cynics will still argue that the high moral ground of many major multinational corporations is motivated solely by profit, nevertheless the philosophy of the corporation's role in society has changed over the years. Milton Friedman's notion that the only responsibility business has is *"to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in free and open competition, without deception or fraud"* is now outdated. Friedman's argument could be seen as somewhat flawed when "the rules of the game" in many less developed countries would allow such things as the exploitation of child labour or environmental pollution. Current thinking would suggest that while the business of business is to maximise return for its shareholders, every business and its employees are major stakeholders in wider society. The business enterprise as a social and economic stakeholder in society is obliged to act in a morally responsible way towards any person or group it interacts with. Issues such as false/misleading advertising, creative accounting, genetically modified foodstuffs, dangerous products, recycling and destruction of the ozone layer have forced companies to balance their social responsibilities to the consumer with the return-on-investment demands of shareholders. Many American corporations balance their moral, social, economic, legal and societal responsibilities as part of normal business practice.

While the question of managing business ethics has become a major corporate issue in America, it will be most interesting if ethics becomes a major agenda item for Irish business in the light of the countless revelations of corporate ethical behaviour 'Irish style'. Many debate whether it is possible to manage ethical behaviour, given the complexities of the business environment, and the people who operate within it. To understand the activities of people in the marketplace, one must understand the essentials of human behaviour. Human behaviour and personal ethics are explained by both individual and situational factors. Behavioural research has revealed three personality measures that could influence ethical behaviour: ego strength, Machiavellianism, and locus of control. Ego strength is defined as a person's ability to engage in self directed activity and to manage pressurised situations while Machiavellianism is a measure of deceitfulness and duplicity. Locus of control is a measure of whether an individual believes that life's outcomes are determined by one's own actions or by actions outside one's control.

Another major source of ethical influence is socialisation. Gender differences, religious beliefs, age, nationality, work/life experience, marital status have all been identified as factors, which may influence the ethical decisions of individuals. A major socialisation factor for those in the workplace is the influence of others in the same environment. Social learning theory supports the idea that we learn appropriate behaviour by modelling the behaviour of people that we see as important - parents, relatives, friends, members of religious orders, teachers, mentors and public officials. Added to this list for many would be one's managers and colleagues, who are often seen as key influencers. In many

organisations the ethical behaviour of this group will influence the ethical behaviour of colleagues. Often different organisational factors/variables supersede personality and socialisation in making ethical choices. The philosophy, culture and managerial behaviour in an organisation will have major impact on ethical behaviour of all employees. Ethical philosophies will have little impact on employees' ethical behaviour unless they are supported by managerial behaviours that are consistent with the philosophy. If an organisation is serious about ethical issues, theory would suggest that areas such as reward systems, goals, systems of appraisal must be structured to account for ethical behaviour. It is a fruitless exercise establishing an ethics' policy when employees are pressurised to act unethically in their interaction with external stakeholders.

While internal variables can influence ethical behaviour, these same variables are always influenced by the external realities of the marketplace. Economic conditions, market share, pressure from managers and shareholders may also serve to undermine ethical behaviour in organisations. In the accountancy profession, an important influence was the changing nature of equity markets. The development of a vast array of creative accounting techniques was as a direct result of pressure from company investors to improve profits and strengthen the balance sheet. A healthy balance sheet ensured that there was a demand for shares, creating scope for rights issues, reducing the need for bank borrowing systems, justifying acquisitions or defending against takeover. Honesty, fairness and respect, attributes of most people's upbringing, are not left outside the office door when one goes to work, yet pressure from internal and external sources makes people compromise these attributes on a daily basis.

While conscience will sometimes stop unethical behaviour, fear of detection and punishment is also recognised as an inhibitor of illegal, immoral and unethical behaviour. In many instances regulatory bodies who police the marketplace, are seen by free marketeers as barriers to economic growth and development. However, the law does have an important role to play in shaping ethical behaviour. Business's pursuit of individualistic values is often at odds with government's collectivist public value goals. Yet most societies recognise the need for governmental regulation, in order to balance the pursuit of profit maximisation with the social and moral obligations of business. It is also important that regulatory bodies ensure that companies who obey the rules are not put at a competitive disadvantage by those unscrupulous enough to flout the law. Commenting at the publication of the Company Law Enforcement Bill in June 2000, Tanaiste Mary Harney stated "*a compliant corporate sector has the potential to yield substantial returns in business efficiency, business solvency, revenue yield and social solidarity but compliance with the disciplines laid down in company law both in relation to governance and accounting is beneficial to the enterprise itself. Any enterprise which takes compliance seriously is also likely to identify and avoid problems in good time which might otherwise threaten it's viability*". This warning comes in the light of the conclusions and recommendations of the Working Group on Company Law Compliance and Enforcement, established by Ms. Harney. These recommendations and the information coming through the various Tribunals of Inquiry and the investigations undertaken by Department of Enterprise and Employment showed (not surprisingly) that many people in business had a complete disregard for the law. It is debatable whether Irish business will follow their U.S.

counterparts and undergo a corporate cleansing programme, nevertheless Irish law and regulatory bodies will have to ensure that white collar law breakers are detected and punished like any other citizen of the state.

Despite current ethical theory, it is very difficult to have generic codes of ethical behaviour while competing in a multicultural global marketplace, with different value systems. While we learn appropriate behaviour by modelling the behaviour of persons we see as important, it is still difficult to manage a complex issue such as business ethics. Many instances of business malpractice are committed by people who never deliberately set out to commit unethical acts. Psychology and world history has shown us that members of almost any group can sink to depths of such immoral barbarity they would never do as individuals. In certain arenas of the business environment, ethical discussions are seen as not being 'macho', a threat to efficiency or contrary to the image of power and efficiency of the enterprise. In the international and indeed national marketplace, many people encounter each other with completely different value systems. How should a manager react to a difficult sales target in a declining market full of unethical competitors with shareholders pressurising the company? How does being reared in the right way, provide an automatic solution to a possible ethical dilemma and the choices that must be made about one's obligation to the customer, the shareholder or society in general? When it comes to business ethics there are no hard and fast answers to these questions. While national and international law has a very important role to play in punishing unethical behaviour, the efficient operation of a free market economy will depend on the deliberate maintenance of a complex set of ethical values in the face of ever increasing and often conflicting pressures.