FROM THE PREVIOUS EDITOR

The Limits and Prospects of Business Ethics

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ABSTRACT: Business ethics has made important strides over the past decades, but it has also suffered significant failures as witnessed by the long line of business scandals in the past half century. This paper discusses different forms that business ethics has taken in relation to the goal of businesses acting ethically. In the end, it maintains that a major challenge current business ethics faces is the lack of an account of business organizations as they ethically develop and change both individually and systemically within social and political conditions. Even if business ethicists can rationally defend what businesses should be doing, unless we can relate this to how businesses can come to operate in those ways, our normative arguments will lack power, persuasiveness, and effectiveness. Only if we are able to provide this analysis will our normative ethics fulfill the practical task it has taken upon itself.

INTRODUCTION

BUSINESS ETHICS, as a normative undertaking, seeks to provide ethical insight and guidance to individuals in business, businesses as organizations, and to society. As a practical endeavor, it seeks to have an impact on the ways in which people in business act, the policies they adopt, and the role that business plays within society.

In its current form, business ethics is only about forty years old. Two dramatic developments trace this period of its existence. First, there has been a rapid increase in attention paid to business ethics (I include social responsibility here). Business ethics is much more widely discussed in 2010 than it was in 1970. The number of journals, articles, and books on business ethics has vastly expanded. A nationwide organization, the Ethics and Compliance Officer Association, was formed in 1991. More recently, a Corporate Responsibility Officer Association was founded. Some corporations have undertaken ethics initiatives both internally and externally, while many more have put out splashy annual reports on their responsibility or citizenship efforts. Large numbers of students take—or are required to take—courses in business ethics. There are chairs of business ethics and numerous centers devoted wholly, or in part, to business ethics. Anyone who uses a search engine to explore references to "business ethics" or "corporate social responsibility" on the Internet will find an explosion of references over the past decades. Business ethics, it seems, has made a dramatic appearance.

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Second, there have been many, increasingly significant business scandals and failures over the past four decades. The bribery scandals of the 1970s were followed by defense industry scandals in the 1980s and the S&L scandals in the 1980s and 1990s. Next came the collapse of the dot-com bubble, and the accounting scandals involving Enron and WorldCom. Most recently, we have had the financial scandals and crisis of 2006–2009, whose effects have been the most damaging and significant worldwide.

After the accounting scandals there was significant soul-searching by many business ethicists regarding the effectiveness of business ethics research, programs and pedagogy. Interestingly, there has been much less of an outcry regarding the failures of business ethics during this latest and most injurious financial and economic collapse (2006–2009). However, the recent financial crisis is particularly troubling inasmuch as many in business have sought to avoid any moral responsibility for this crisis. Instead, businesses such as Goldman Sachs or J. P. Morgan Chase only admit to having misjudged the levels of risk they took on. In addition, they have blamed the Federal Reserve for keeping interest rates too low, the government for not adequately monitoring various financial products and services, and the ready availability of money from Asia and the Middle East.

How the development of business ethics and the string of scandals and crises relate to each other should be a matter of ongoing concern for business ethicists. Business ethics as a field of inquiry has made important advances in sophistication, the extent of its acceptance, and the numbers of those engaged in its concerns. And yet the development of business ethics has been limited by the lack of adequate attention paid to an account of ethical change and moral development in business organizations and the capitalist system. When those involved in the most recent crisis blame technical errors of risk management and inadequate government oversight, one wonders why the ethical failures of this crisis have not received more attention. More importantly, we should also be concerned about how ethical change can be brought about in these (and all) businesses so as to avoid future crises and scandals and foster higher levels of ethical behavior in general.

RATIONAL ARGUMENT AND IMAGINATION

Part of the difficulty is that, grounded in ethics, much of the argument of business ethics has relied on rational argument and conceptual clarification. Consider, for example, Norman Bowie's article, "Challenging the Egoistic Paradigm," in which he argues that we need to replace the egoistic paradigm business has assumed and that instead of focusing on profit maximization business should focus on making meaningful work for employees (Bowie 1991). Both arguments regarding egoism and profit maximization lay out a rational, theoretical case in their defense. Both arguments are sound arguments and, for many in the community of business ethicists (including myself), are persuasive.

Unfortunately, it is not obvious that Bowie's arguments have won over their opponents. Why not? Was it that only a few people read his article? Are there entrenched interests dissuading them from changing their views and behaviors? Bowie's paper was aimed, seemingly, at managers and business professors. But it is unclear that it has achieved its aims with those who hold the views Bowie was attacking.[1]

Similarly, Sumantra Ghoshal has, in a more recent article, "Bad Management Theories Are Destroying Good Management Practices," also argued against the egoistic paradigm and business's focus on profit maximization. He too offers a reasoned defense of his view within the context of management literature, and other theories such as agency theory and transactions cost theory. Because his paper is much more recent it is unfair to ask how much impact it has had in the business world. But my suspicion is that its impact will not be greatly different from the impact of Bowie's paper.

What is striking about both these articles by Bowie and Ghoshal is that they take a reflective, consciousness raising approach. If business people read their work and are convinced, then they will take steps to change their ways or those of their organizations. Ghoshal even quotes Keynes that "the world is run by little else [than ideas]. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist" (quoted in Ghoshal 2005: 75). He also quotes Kurt Lewin that "nothing is as practical as a good theory" (Ghoshal 2005: 86).

Still, Ghoshal takes a step further in his article than Bowie does in his. Ghoshal also thinks that for these theories to be changed, schools of business must play a much more active role in redirecting the thinking of future managers along the lines of the views he has defended. Ghoshal holds that "ultimately if the trend in management theory is to be reversed, only business school academics can do so" (Ghoshal 2005: 87). However, he thinks that academic structures weigh against academics challenging and changing the views he and Bowie attack. Thus he turns to the deans and boards of governors of academic institutions to play an important role in developing conditions that may create new theories to replace those he and Bowie criticize (Ghoshal 2005: 88–89).

Still, the main assumption remains that the major problem we face is an intellectual or theoretical problem that requires resolution through the work of academicians and deans. Stated in this blunt fashion, Ghoshal's solution to the problem of bad (and unethical) management seems dubious. If the problem of unethical management could be addressed in this manner, one must wonder why we haven't seen more change in the business world to this point given the variety of ethical theories and frameworks that business ethicists and management theorists have come up with.

Rorty attacks this problem of changing business behavior when he argues that many philosophers (and we might add other academicians as well) believe that "you can escape from the limitations of your background by exercising your innate rational powers" (Rorty 2006: 372). Rorty proceeds to comment that "one great divide in contemporary philosophy is between people who still believe something like this, and those who, like me, believe nothing of the sort" (Rorty 2006: 372). In effect, Rorty maintains that many business ethicists hold a view of rationality and ethical change that has relations to the notions of rationality that some economists have held, and for which they have been criticized. If rationality plus self-interest is insufficient for our views of economics, rationality plus ethics is insufficient for our views of an effective business ethics. It is not that a rational ethical approach has not had any successes. It is not that this view of business ethics is wrong. Rather, the charge is that it is too restricted a view. It is a limited view of the whole story. It is not obvious that it has had much of an effect on Wall Street firms or many other businesses.

Rorty's solution is that what is needed is a greater awareness of alternatives to foster changes in business. For this, we need greater moral (or creative) imagination. Referring to Genghis Khan, Aristotle, and Kant, Rorty says that "we do not have better moral theories than these people did, nor are we more skillful at moral reasoning, but we are able to envisage possibilities for human life that never crossed their minds" (Rorty 2006: 376). In short, to change people we need to engage their emotions and motives as well as their intellects. Rorty refers to Werhane and her work on moral imagination as a helpful effort in this direction.

The point here is to imagine other alternatives, including imagining a good community within which business plays its role. To this extent, Rorty agrees with Werhane's solution as to why managers engage in questionable activities—they lack moral imagination (Rorty 2006: 375). Thus, he contends that "the two most useful tools for such work . . . are narratives, whether historical or fictional, and what Laura Nash calls 'context-specific guidelines' such as the Sullivan principles" (Rorty 2006: 377). "The business ethics community . . . does not need people with a thorough knowledge of moral theory as much as it needs people who have a journalist's nose for a good story and a novelist's talent at spinning it" (Rorty 2006: 378). As examples, he mentions *Uncle Tom's Cabin*, the novels by Dickens and Zola, as well as books by Upton Sinclair, Jack London, Theodore Dreiser, Ayn Rand, and Tom Wolfe (Rorty 2006: 377). The upshot is that Rorty holds that the changes business ethicists (and others) seek "will come from the creative imagination, rather than from rational reflection or from empirical discoveries" (Rorty 2006: 378).

Rorty's reply is that of the literary person or the aesthete. It is very individualistic and comes with little theory of how change occurs in business other than through individuals and their imaginations. This is a problematic view that has not answered our problem. Still, Rorty gets it right when he says that "moral philosophy that does not bear on questions about whether and how to change our political and social institutions is . . . pointless" (Rorty 2006: 375). But "bear on" is much too weak a relation. Surely novels and creative imagination have changed some people and some organizations. However, we need a stronger account of the conditions under which business organizations and society change in moral directions. We cannot leave it simply to creative imagination—surely the people on Wall Street were quite creatively imaginative when they developed some of the derivatives they created.

LEGAL AND CIVIC PERSPECTIVES

Instead, business ethicists need to pay much greater attention to the social, economic, legal, and political context of ethical business actions and policies. We need a normative theory of organizational (business) and systemic (capitalism) moral change tied to an account of how these changes occur.

David Vogel and Robert Reich have addressed these issues in very different ways. Vogel recognizes that business has made important progress through voluntary standards. "The market for virtue, or civil regulation, has produced important changes in corporate practices" (Vogel 2005: 162). Still, Vogel argues that competitive pressures mean that business virtue can only have very limited impact. "There remains a substantial gap between discourse and practice with respect to virtually all codes and voluntary standards" (Vogel 2005: 164). Though some managers "sincerely want their companies to promote civic purposes," their ability to achieve these ends is strongly constrained by competitive pressures (Vogel 2005: 13). Though some CSR may redound to the benefit of the company, much of it will involve increased costs that will have to be passed on to customers who have shown reluctance to accept higher costs.

In the end, Vogel maintains, "governments remain essential to improving corporate behavior" (Vogel 2005: 170). Quoting from a World Bank report, Vogel writes that "voluntary CSR practices of private enterprise cannot be an effective substitute for good governance" (Vogel 2005: 170). The effectiveness of much the market for virtue or civil regulation depends on a strong and well-functioning public sphere, a point to which Reich would agree. This is particularly true when it comes to corporate commitments to avoid corruption and respect human rights (Vogel 2005: 170).

Accordingly, Vogel maintains that we need to view corporate responsibility more broadly to include efforts to raise compliance standards and thereby "to strengthen civil society and the capacity of governments to require that all firms act more responsibility" (Vogel 2005: 172, italics removed). "In fact," Vogel adds, "the most critical dimension of corporate responsibility may well be a company's impact on public policy" (Vogel 2005: 171). Accordingly, the future of business ethics depends on businesses working with government to increase requirements on business to act in responsible ways. But why businesses should do this, given Vogel's view of them, is somewhat unclear. Even after the recent financial crisis, it does not appear that businesses are rushing to encourage government regulation that would encourage or foster ethical behavior on their part. Similarly, Starbucks doesn't seem to be pushing governments for international agreements on coffee prices that would help their growers. Yahoo has not urged governments to arrive at agreements on matters of censorship. And similar observations could be made about other businesses and their efforts to working with governments to increase requirements on them.

Reich takes a more extreme position in that, given the current conditions of capitalism, he doubts the effectiveness and legitimacy of CSR. Reich argues, in *Supercapitalism*, that businesses cannot be socially responsible, since under supercapitalism, companies cannot accomplish social ends without imposing a cost on their consumers or investors—who would then seek and find better deals elsewhere (Reich 2007: 168, 173). He notes that companies committed to corporate social responsibility, such as Cummins Engine, Dayton Hudson, Levi Strauss, Polaroid, and the Body Shop (Reich 2007: 173–74), have been punished by investors. On the other hand, he maintains, investors don't punish companies lacking in social virtue such as Exxon Mobil, tobacco companies, gun companies, and defense companies (Reich 2007: 175). Sounding like Friedman, he agues that profit is the only legitimate motive of businesses (Reich 2007: 12, 214). Businesses are not moral beings or moral agents; focusing on them as moral being distracts us from what we need to do (Reich 2007: 207). In this situation academic theories don't lead us ahead; at best they simply legitimize the current situation (Reich 2007: 11–12).

Reich's solution is to turn to citizens to change the rules by which business operates. He doesn't think we should praise companies for the good they do, or the harm they impose. Instead, if something is important, we should make it a legal rule. As such, he argues that we need to recapture democracy and the action of the public to set rules whereby the scandals and crises we have experienced can be avoided.

The obvious problem with Reich's view is that business can bring significant pressures to bear on legislatures through lobbying to derail efforts to create new rules. In fact, Reich allows that the current "system cannot repair itself from the inside" (Reich 2007: 211). Consequently, somehow the public must develop the means to push through laws that would, importantly at the outset, remove the role of money in politics. "The most effective thing reformers can do is to reduce the effects of corporate money on politics" (Reich 2007: 216). Regardless of how this would work in other countries, given the recent U.S. Supreme Court decision that opens the financial doors of businesses to spend much more freely than in the past in the political realm, one can only wonder how Reich's prescription could be fulfilled in the U.S. Though Reich offers a large number of examples of laws and regulations he would like to see passed in order to change the rules of business practice, it is unlikely that the path he foresees to altering the behavior of business will be followed. Beyond that, since he sees business as only motivated by profit, he must rely simply on external restraints to direct the actions of business which is a path to endless regulations and bureaucracies. It is a compliance approach without regard for changes needed in the organizations that require such extensive compliance.

SOCIAL AND POLITICAL PERSPECTIVES

In spite of Vogel and Reich's differences, not to mention objections one might raise with regard to their particular views of business ethics (CSR) or organizations, they both point in an important direction for business ethics. Of course, it might be argued that their approaches substitute law and compliance for business ethics, but this, I think, is to take too narrow a view of business ethics. Surely part of a robust ethical view is a consideration of the conditions under which business ethics may be realized. And Vogel and Reich point in the direction of what might be called, broadly, political philosophy.

However, both Vogel and Reich propose different forms of external constraints on business so as to direct their actions in socially and ethically justifiable directions. They are correct to point business ethics in the direction of the social and political dimensions of business organizations. But we lack an account of business organizations as they develop and change both individually and systemically within these conditions. We need to focus new efforts (as some have been doing) on understanding businesses, not simply as economic organizations, but also as social and political organizations themselves that change over time. The amoral view of business is faulty, De George has correctly argued. The apolitical and ahistorical views of business are also faulty. And given that the business system is no longer local or national, but global, what would it take to change the rules and guidelines according to which global businesses operate? Even if we are certain we know what they should be doing, unless we can relate this to how businesses can come to operate in those ways, the normative arguments will lack power, persuasiveness, and effectiveness. Only if we are able to provide this analysis will our normative ethics fulfill the practical task it has taken upon itself. This is the complex and fascinating future I see for business ethics.

NOTES

1. Since Bowie is well aware of the social and political dimensions of business, it is somewhat unfair to pick on this article by him. I do so not to disparage his work, but merely as an example of a great amount of the work business ethicists have engaged in that has not had the effects it seeks.

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