Ethics from the top: top management and ethical business

Doris Schroeder

Introduction

Many business ethics texts deal with problems and constraints rather than with the prime movers of ethical business, the top managers. Whistleblowing, bribery or insider dealing are key examples of ethical problems (De George 1995, Fadiman 1991, Barry 1998) whilst human nature or globalisation are key examples of alleged constraints on ethical practice (Goudzwaard and de Lange 1995, Bosch and Tergeist 1995). Texts that deal with people come mostly in two varieties, those that introduce the icons of ethical business and their companies (Scott and Rothman 1994, Sillanpää and Wheeler 1997) and those that suggest philosophical foundations for personal ethical behaviour (Solomon 1993). This article will ask ‘who are the people that can make an ethical difference in business life?’ Codes of ethics and conduct typically demand “the highest standards of honesty, integrity and fairness [from] … each and every employee” (Blanchard and Peale 1988: 21) so as to create an ethical company. This implies the possibility of a democratic or lobbyist approach to ethical business. In the past, workers co-ordinated their demands via union involvement and brought about fundamental improvements in working conditions. Likewise they might wish to facilitate a move from profit-driven to value-led business. The contrasting view would argue that business ethics cannot rely on a mass movement from below as, for example, environmental ethics might, but has to be planned, steered and controlled from the top. I will look at three types of ethical businesses, three types of approaches to ethical problem-solving and three possible incentives for ethical business to see which direction business ethics takes.

Types of ethical business

Nobel prizewinning economist Milton Friedman famously wrote that the social responsibility of business is to increase its profits (Friedman 1970: 126). He did not believe that company leaders had any social responsibility, be it for eliminating discrimination, avoiding pollution or creating jobs. In his view, those who advanced these ends alongside that of the generation of profits were “unwitting puppets of the intellectual forces” of socialism (ibid.). At the other extreme, on the socialist side of economic and political thought, all private business and enterprise was considered incompatible with the good society (Marx 1981: 63). Which types of companies can be found in the middle of this continuum? The answer is companies operating under private property laws but expressing ethical ideas in their dealings with others. It is possible to distinguish three different types:

- First, there are companies that make profits in line with Friedman’s prescriptions but subse-
quently donate parts of the profits to charity. Bill Gates is the most famous example of this approach. Microsoft is a company strongly focused on profits but at the same time its executive is known for his philanthropy. In 1999, the Gates Foundation overtook Ted Turner in making the largest-ever single donation recorded: $3.34bn for various health and education projects (BBC News Online 06/02/99).

Second, there are companies such as Ben & Jerry Ice-cream known for the integration of social values into day-to-day business activities. Their prime ethical characteristic is not that they give to charity (which they do), but that they implement ethical principles in every single business area. The two owners, Ben Cohen and Jerry Greenfield, opened an ice-cream shop in an abandoned gas station in 1978. Today they are a phenomenal success, and are included in almost every business ethics textbook. They call their approach “caring capitalism” (Scott and Rothman 1994), and some examples of their business practice will clarify why.

- They purchase raw material with environmental and other causes in mind, for example, nuts from rainforest tribes faced with extinction, blue berries from Indians who were previously excluded from economic prosperity, cakes from a homeless project and other similar initiatives (ibid: 55).
- They do not use traditional, high-cost, over-persuasion marketing (ibid: 53).
- They use insurance and banking services that support social causes (ibid: 56).
- They use recycling and waste treatment technology throughout the production process.
- Instead of raising money on the stock market, they raise funds by offering community residents a share in their company (ibid: 52).
- They offer generous paternity leave, free membership of health clubs and a compressed salary ratio (the highest earner cannot earn more than seven times the lowest earner’s salary) (ibid: 58).

One thing Ben & Jerry do not have, though, is an ethical product. A high-cholesterol, high sugar, high price product is potentially bad for people’s health and too expensive for many consumers.

The third type of ethical business is the producer or provider of ethical products and services. What can be regarded as an ethical product depends partly on people’s philosophy of life but in many cases disputes will be minimal. For example, Trevor Bayliss’s wind-up radio and wind-up torch, both developed as cheap and environmentally friendly technology for rural areas in developing countries, are a good example (BBC News Online 07/05/98). Or take another example from the field of medicine. Dr Jack Aronowitz from the United States invented a patch, similar to nicotine patches, for diabetics. The patch can monitor blood sugar levels and thereby reduce the need for painful daily needlestick tests (BBC News Online 02/06/99).

We can hence distinguish three types of ethical businesses. First there are businesses that operate strictly under the profit maxim, but donate parts of the profits to charity. Secondly there are companies that establish and maintain ethical procedures throughout their business dealings, and thirdly there are companies manufacturing or providing ethical products or services.

It is clear from this brief overview that the number of people who can create or maintain ethical business in the above sense is limited. To donate money to charitable causes before profits are distributed to shareholders or re-invested is a decision that can only be made by top management or owner managers. Equally, the principled decision to incorporate ethical considerations into every business area has to come from the top. Although, chief buyers, for example, might occasionally have the opportunity to source from ethical suppliers, only a decision from the top can transform the ‘occasional’ into a ‘principled’. The decision which most obviously belongs to top management or owner managers is the choice of products and services to include in their companies’ range. Hence, the impetus for ethical business in the above sense has to come from the top, either from managing directors or from owner managers.
Dealing with problems – types of ethical problem-solving

Even ethical businesses of the above types can run into major ethical dilemmas which have nothing to do with profit-sharing, ethical business policies or ethical products; dilemmas that are based on interpersonal conflict between employees such as sexual harassment or favouritism. Coping with these dilemmas is another dimension of ethical business, and it is useful to distinguish three approaches. First, there is the moderate approach, i.e. intervening when things go seriously wrong to establish who is at fault. Second, there is the watchful approach, which tries to put in place measures and procedures to deal with problems before they get out of hand. Third, there is the ambitious approach which aims at preventing problems from occurring in the first place. To clarify these distinctions, I will give an example of how each of these approaches would deal with bullying.

Instead of making up an imaginary example, I will look at the case of BBC weather broadcaster Bill Giles. In 1999, he was accused of bullying and harassment by two fellow weathermen. Both of them stayed on long-term sick leave until Giles resigned in January 2000. They alleged that his frequent criticism and biting memos had created a climate of constant fear. The MET Office started an inquiry, which took seven months to complete and found Mr. Giles ‘guilty of serious misconduct’. However, Giles won his appeal and cleared his name, at least regarding the charges of one former colleague. Nevertheless, he resigned six weeks later.

What would the moderate approach to dealing with interpersonal dilemmas entail in this case? There are two people on long-term sick leave, accusing a third of serious misbehaviour, which allegedly caused their illnesses. To leave the situation as it is would be unethical. Either Bill Giles was accused unjustly, in which case he deserves to have his name cleared, or he did indeed bully his colleagues into illness and should therefore face consequences. The problem had got out of hand and the moderate approach would only try to establish who was right and who was wrong. To do this, an inquiry would have to be launched, which is what the MET Office did. The outcome of this inquiry is irrelevant for our discussion, but the attempt to establish who was at fault shows that the MET Office subscribed to the moderate approach of intervention after a problem had already got out of hand.

Let us now look at the second type of approach, the watchful approach. Here, measures and procedures are in place to deal with problems before they get seriously out of hand. Applied to the bullying case, what could these measures and procedures have looked like? (Only one possibility will be outlined here.) One option would have been mediation. A mediator will try to get both parties in a conflict to work on a solution. It is important that disputes get to mediation before the prospect for success is bleak and before individual parties are too embittered to be able to work together. In a small company it may be possible to elect a mediator from within the company’s own staff. A medium-sized company might want to invest in external mediation. In New Zealand, for example, Zenergy (2000) offers ‘a team of facilitators and coaches committed to developing and enabling people to work together productively and synergistically’. In the US, a company called ‘Better Business Bureaus’ offers mediation for conflicts, particularly in the car industry (Purdy 1994: 3f). Mediation of business disputes is also often undertaken by business consultants with experience both in the relevant sector and in conflict mitigation. Finally, a major corporation might want to employ a mediator on site, often a psychologist, a trained ethicist or a business consultant. With mediation in place, it might have been possible to create a better working climate between Bill Giles and those he allegedly bullied before things came to the point of stalemate. The problem might still have occurred but on a much smaller scale.

Finally, the third approach tries to prevent problems from occurring altogether. This is a very ambitious approach and it relies on the belief that people can be changed, for example, through education or medical intervention. What could this mean for our case involving Bill Giles? Some business consultants would say that the whole affair revealed a major deficiency that is fairly
common in management; namely the misconcep-
tion that excellent human capital comes from
hiring good and firing or scaring off bad employees.
That is an outdated approach according to some
micro-business analysts. It is argued that there are
few truly ‘bad’ employees but possibly a huge
number of ‘badly managed’ staff (Howitt 1999:
55). Bullying managers, it could be argued, believe
that their staff are not good enough. They do not
think that their management skills are deficient. If
this interpretation is valid, bullying cases could be
avoided by good management for which training
ought to be made available.

Hence, we can distinguish three main ap-
proaches to dealing with interpersonal dilemmas:
the moderate approach that tries to establish who
was at fault in a particular situation; the watchful
approach that intervenes when problems first
appear through, for example, mediation; and the
ambitious approach that tries to put measures in
place to stop problems from occurring at all. How
are these approaches to conflict resolution related
to top management?

As for the moderate approach, it is difficult to
make universal statements about who launches
inquiries into serious misbehaviour and who does
not. However, it seems reasonable to assume that
decisions about major inquiries, as in the Bill Giles
case, are not taken by staff less senior than those
involved. If the public image of a company is
threatened, it is highly likely that top managers
will have to make the relevant decisions. However,
under the watchful approach their involvement is
more straightforward. Unless enforced by govern-
ment regulations (e.g. union representation), it is
top managers who decide whether to install measures to
avoid major interpersonal conflicts. The employment of a psychologist on site, for
example, or the investment in external mediation
in particular cases, is not a decision that will be
made outside the boardroom. The same applies
to the ambitious approach. To foster a culture of
good management requires major investment in
training and strategic human resource develop-
ment and can therefore only be promoted and
realised by top management.

Again, it has to be concluded that the impetus
for ethical business in terms of conflict manage-
ment has to come from the top, either from
managing directors or from owner managers.

Incentives for ethical business

Companies have three incentives to opt for ethical
business. Firstly it helps to get the best out of staff,
secondly ethical business appeals to the ethical
consumer, and thirdly all involved gain personal
satisfaction. If valid, the first two are instrumental
reasons for ethical business. What is really aimed
for are, amongst others, company growth, healthy
profits and good stock market performance.
Satisfied customers and excellent staff are only a
means to these ends. If for some reason staff were
more likely to work hard for unethical companies,
ethical imperatives would become obsolete within
the instrumental framework.

(i) Getting the best out of staff – putting people
first

There are two main areas where business ethics
meets employee issues. First, treating employees
fairly, considerately and appreciatively is one of
several elements that characterises an ethical
company. Hence staff treatment provides a yard-
stick in the evaluation of ethical commitment of
individual firms. Second, there is growing evidence
that ethical leadership brings out the best in
employees. Consequently, ethics in business can be
used instrumentally to increase employee perform-
ance.

In the early 1970s, Peter Drucker (2000: 143)
famously claimed that the purpose of organis-
ations “is to enable ordinary human beings to do
extraordinary things”. Ever since, there has been
much talk in management circles about putting
people first, but many companies “only pay lip
service to a truly employee-oriented philosophy”
(Holden, 2000: 123). Even affirmations by the pre-
eminent contemporary management guru, Tom
Peters, who tends to evangelise staff (Crainer
1998: 117), has not led to fundamental changes.

This is all the more surprising as there is strong
evidence that putting people first, together with a
consistent and value-driven business strategy, will
produce increased profitability. According to Philip Holden (2000: 131), employees will only give their best if they can identify with something worthwhile at work and if they are proud of the purpose and the belief-system within their company. According to Blanchard and Peale (1990: 95), pride in the strategic vision of one’s organisation, combined with the feeling of being treated fairly, will bring out the best performance in employees and lead to high-quality work and profitability.

A recent survey by Management Today (Weait 2001: 53) showed that unethical behaviour “from pilfering pens and surfing the net while at work to outright fraud – remains endemic in the British workplace”. In Scotland, for instance, “employee theft accounted for 13% of all crimes against business premises … in 1998” (ibid. 57). The survey found that managers are aware of dishonest conduct but believe that it is inevitable (ibid. 53). But is it? The same survey found that less than half of all employee respondents believed that their top managers were strong ethical role models (ibid.). It was suggested that ethical obligation is a mutual or reciprocal obligation, implying that only if there were ‘ethics from the top’ would there be ‘ethics at the bottom’. Only an organisation that manages to create a culture of “mutual service, friendship and community, and passion and excitement” (Holden, 2000: 133) can overcome lack of commitment and lack of ethical conduct in employees. When people have negative feelings about their organisation, they often try to ‘even things out’ by calling in sick, making private long-distance phone calls, or taking office supplies home (Blanchard and Peale 1990: 84). On the other hand, if they feel appreciated, the chances are higher that they will resist acting unethically. If they are proud of their organisation, they will try to maintain its integrity (ibid. 95).

The role of top managers in connection with employees and ethical business is two-fold. On the one hand, “guidance from the top is needed to bring out the best in people” (ibid. 29). Managers cannot expect ethical behaviour from staff unless they set a good example. This means at least two things, namely equitable treatment of employees and providing a managerial, value-driven vision (Drucker 1989: 301) for the company. The key to successful businesses is to have leaders whose integrity and ethical forethought is strong enough to inspire staff without exploitation (Holden, 2000: 143). On the other hand, ethical business is in itself a means for corporate success. Hence, to act ethically represents a strong, instrumental incentive for success-driven managers.

(ii) Appealing to the ethical consumer

Ethical consumers are buyers with at least two preference strategies. First, as all consumers, they show preference for increased material utility, i.e. receiving a product or service for their money rather than giving it to charity. Second, they want to either benefit a third party or entity or avoid harm to a third party or entity in the process. Ethical consumerism is on the rise (Cowe 2000, Carslaw 2000, Harrison 1997). This is the case in instances as diverse as animal testing for cosmetics, petrol sales, tropical timber sales, ethical banking and organic food. Companies that ignore those who ‘shop with a conscience’ (BBC News Online 1999) must expect a drop in sales as market shares for ethical companies keep rising. In 2000, the most in-depth ever independent research on British ethical consumerism, commissioned by the Co-operative Bank (Mori 2000), was published with the following findings:

- the majority of products with ethical appeal show significant growth
- the potential for the ethical market is 30% of consumer spending
- 50% of the British public believe their consumer behaviour can make a difference when it comes to how responsibly companies act
- how a company treats its employees is important to 40% of British shoppers, whilst a company’s impact on the environment matters to 33%.

The movement of ethical consumerism thus appears to provide a strong instrumental incentive for ethical business. Aligning a business with ethical consumer demands is a task for top management, since the provision of ethical products or services is a top management decision.
(iii) Personal satisfaction

Personal satisfaction about ethical business comes in two varieties. First, there is the satisfaction of working for an ethical company, be it for instrumental or other reasons. Secondly, there is the satisfaction of having brought an ethical business into existence or of having introduced ethical practice into a given company.

A marked difference must be noted between the two. The first is an instance of passively enjoying a benefit whilst the second is an instance of creating the benefit through positive action. The latter necessitates a much stronger commitment to business ethics. Dinner guests might enjoy a meal in the knowledge that all ingredients came from free-range, sustainable agriculture, but would they be prepared to buy those ingredients for themselves?

Why should creating an ethical company lead to personal satisfaction? The vast majority (98%) of 4–5 year olds have a clear understanding of negative duties (do not steal) whilst 85 per cent have a clear understanding of positive duties (one ought to help), according to studies by Elliot Turiel (1983) and Gertrud Nunner-Winkler (1988, 1989). At age eight, ninety per cent of children correlate rule violations with bad emotions because they know that they have done something wrong (Nunner-Winkler 1991: 155). Knowledge about having done something wrong and its consequences is also implied in the ‘ethics check’ recommended by management theorists Kenneth Blanchard and Norman V. Peale (1990). They believe that difficult decision-making can be facilitated by answering the question: ‘Would I feel good if my decision was published in the newspaper?’ (Blanchard and Peale 1990: 27). If this question cannot be answered in the affirmative, an action should not be undertaken as it will only erode the decision-makers’ self-esteem: he or she “can’t help but feel bad” (ibid. 24).

These studies confirm Ancient Greek thought that human flourishing and leading a moral life are intrinsically linked. According to Aristotle (1985: 14) true happiness, eudaemonia, has to be earned through leading a good and virtuous life. Bliss cannot be waited for passively, it is always linked with action, with doing good in life and being courageous, moderate, generous, honourable, truthful and just (ibid. 36–38). Similarly, Plato (1993: 211) believed that the perfectly just man would achieve eudaemonia whilst unjust men would inevitably suffer unhappiness (ibid. 360f).

Hence, to gain personal satisfaction from the establishment of an ethical company fully accords with both modern psychological studies and old philosophical thought. Doing good leads to personal satisfaction, but the emphasis is on doing. It is top managers who are the ‘doers’ in ethical business and it is to them that personal satisfaction will flow.

Three incentives for ethical business were listed: getting the best out of staff, appealing to ethical consumers and personal satisfaction. All are incentives for a special group of people. They are incentives for top management. They make their companies stronger by complying with ethical consumer demands and making the company attractive for selective staff and they experience personal satisfaction from actions of moral leadership.

Conclusion

Only top management and owner managers have the opportunity to foster major changes in business practice and to lead a company from profit-driven to value-led objectives and actions. The impulse for ethical business has to come from the top; it cannot be instigated from the bottom in a democratic manner. All three types of ethical businesses, namely those that are using profits to support charitable causes, those that incorporate ethical procedures throughout their activities, and those that provide ethical products or services, need extensive initiative from managing directors or owner managers; an initiative that cannot be substituted by democratic involvement. The same applies to conflict resolution approaches to deal with ethical dilemmas. All three approaches (moderate, watchful, ambitious) require decisions from the top in order to be implemented. Finding solutions to ethical dilemmas in business is a steered procedural and not a spontaneous democratic process. Lastly, incentives for ethical business are
vastly more relevant to top managers than to individual employees. The instrumental incentive of getting the best out of staff requires visionary leadership and setting a strong moral example from the top. The instrumental incentive of appealing to ethical consumers links with the third type of ethical business, i.e. the provider of ethical products or services, and this provision requires a decision which can only come from the boardroom. Personal satisfaction from ethical business which links in with Aristotelian virtue ethics and modern psychological research also applies much more stringently to the creators (top managers) and not the benefactors (employees) of ethical business.

To conclude: top managers are the film directors of the ethical business world. They plan, design, maintain and steer their creation and no democratic effort from the film crew can make up for a director’s failings.

Notes

1. I would like to thank Eben Botha from the Institute for Organisation Development and Transformation, Technikon, South-Africa, for inviting me to present this paper at the Knowledge Management Conference in Sabie, South-Africa.

2. For the purpose of this article, a simplified, utilitarian definition will be used: a product or a service is considered ethical if it fulfils the following condition: the product increases overall happiness and particularistic happiness is not outweighed by detrimental side-effects on either the user, the producer or other entities (e.g. third parties, environment, animals). Products that are neutral in terms of delivering happiness can be ethical if they maximise Aristotelian distributive justice (Aristotle 1981: 102–103), e.g. fair trade products.

3. This is not a logical but an empirical observation. Of course, as communist theorists envisaged, a democratically run company where every employee had the same share of decision-power is perfectly feasible. We will, however, proceed from the view expressed by Will Hutton (1997: 2) that capitalism in its various forms ‘is now the only game in town’. And the overwhelming majority of companies operating under a capitalist framework are not worker co-operatives.

4. A company might have an intricate complaints’ procedure system which slowly leads towards an inquiry as a final measure of settling disputes. Top managers might only come to hear about the dispute at this late stage. Although this case might strengthen the claim that ethical procedure can start from the bottom, it misses the point. If a system like this were in place, the case would fall under the watchful approach, i.e. arranging measures to avoid disputes getting out of hand. Then, it would be significant who put the system in place, not by which levels of the hierarchy it is run.

5. Agreement on particular instances of ethical consumerism can be made difficult by three main complications. First, a possibly complete overlap of personal utility satisfaction with third party benefit. Some vegetarians care exclusively about animal suffering whilst others refuse to eat meat for health reasons only. Some consumers of organic produce want to reduce pesticide accumulation in soils whilst others will, again, think about their health only. Second, can ethical consumers really judge third party benefit or harm? 92 per cent of British shoppers ‘wanted a minimum standard of working conditions to be enforced in developing countries’, according to a survey conducted by Cofid and Mori in 1997 (BBC News Online 1999). However, not to buy products that might have been produced under undesirable working conditions could worsen the situation of workers before any change has been effected. Third, second and third party benefit might not always be clearly separable. It is possible that a company has a reputation for ethical business or uses marketing strategies to suggest ethical practice without, in fact, benefiting a third party. Using the label ‘green’ can, for instance, suggest support for environmental causes which is non-existent. However, despite these conceptual and practical difficulties of identifying acts of ethical consumerism, the phenomenon cannot be ignored as an incentive for ethical business.

6. Instrumental reasons: companies with ethical guidelines and a reputation for ethical conduct are more likely to invest in their staff, to provide good working conditions, to promote fair salaries (equal pay for equal work) etc. Other reasons: an employee might want to promote values s/he holds in private whilst at work (e.g. working for the Co-operative Bank with its policy on not lending capital to companies involved in the arms trade, etc.).
Bibliography