

# Haberdashers' Aske's Boys' School

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**Business Ethics - An Oxymoron?**

**Adam Lawrence**

[lawrence\\_a@habsboys.org.uk](mailto:lawrence_a@habsboys.org.uk)

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## **Business Ethics - An Oxymoron?**

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### **Abstract**

This paper explores deontological and teleological approaches to decision making in the context of business ethics. Through an exploration of contemporary issues, the paper applies Kantian ethics and utilitarianism to business ethics, considers whether or not the concept of corporate social responsibility is nothing more than 'hypocritical window-dressing' covering the greed of a business intent on making profits, and questions whether globalisation encourages or discourages the pursuit of good ethics as the foundation of good business.

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### **Business Ethics**

*"Stakeholders want companies to make a profit, but not at the expense of their staff and the wider community"* (Brian Gosschalk, CEO, MORI, quoted in *Financial Times*).

While the *raison d'être* of businesses is to make money, it is increasingly common for organisations to integrate ethical values into their day-to-day practices. Businesses do not have to ignore ethical standards to flourish and indeed some of the most successful profit-making organisations manage to thrive financially at the same time as upholding core key values. The ethical dilemma for businesses is this: if a business' key aim is to make money, is there a duty to do so in a moral way? Despite being an historical approach to decision making, ethics is relatively new on the scene to businesses as we see an increased provision of corporate social responsibility initiatives and a global awareness of the impact of making wrong business decisions both on individuals and the wider communities in which businesses operate.

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So, what is ‘Business ethics’? Business ethics is the study of business situations, activities, and decisions where issues of right and wrong are addressed.<sup>1</sup> This may be as simple as a company contracting with an environmentally friendly supplier or it may involve a business spending money on personnel specifically hired to ensure that ethical practices are integrated throughout a business and its policies. The application of Kantian ethics and Utilitarianism to these decisions are fundamental to the study of Business ethics.

## **Kantianism**

From a deontological ethical perspective, Kant’s theory raises many questions for business decisions as it considers the goodness of an act in itself as opposed to the goodness of the act in accordance with its result or outcome. Kantian ethics is an absolute theory where a decision that goes against one duty is absolutely wrong regardless of circumstance. In a finance-driven environment, making decisions based on this guidance becomes very tricky indeed, particularly when stakeholders have a primary aim of making money. Stakeholders may have a focus on a business’ EBITDA (earnings before interest, tax, depreciation and amortization) to evaluate performance and considering ethics will, for some, be a secondary consideration. A **stakeholder** is a third party to a business impacted by the work of an organisation, including customers, clients, shareholders and employees. In other words, anyone with an interest in or affected by a business.

‘Duty for duty’s sake’ can therefore be difficult in many business decisions where the financial drive behind a decision is so important. Whilst doing the right thing in business because it is the right thing to do makes sense, financially it may have the opposite effect and be detrimental to a company’s EBITDA. A duty to do the right thing compared with the outcome of a decision may be two very different elements to consider in a decision, yet the two go hand in hand. For Kant, only the good will is truly good. While Kant is interested in the will behind a decision, a critic would argue that for a business struggling to keep out of the red, the will and practicalities in running a business are two very opposite ends of the spectrum. Consider this scenario:

### **Ethical dilemma**

Company X is in arrears for rent, bills and is just about managing to pay its employees at the end of each month. Its customers are not always the most reliable at paying invoices on time and the market is unstable with significant competition from competitors offering similar goods and services at lower rates.

One of the directors is contacted by a potential new customer with a prospective large order which would give the company financial stability for several months. The only catch is that the potential new customer has stipulated a condition that only male staff are to be placed on the account.

While this may be possible to arrange it is not something that the Director is happy with and may also have legal implications. Nevertheless, this is a

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<sup>1</sup> A. Crane and D. Matten, *Business Ethics: A European Perspective*, Oxford: Oxford University Press: 2004, p. 8.

large customer that could really turn around the company's financial standing.

**Questions for discussion:**

1. What are the ethical issues at stake in this scenario?
2. Set out the main influences that would impact the Director's decision whether to accept the new customer's order?
3. What would you say to the new customer if you were the Director?
4. What do you think most people would do in this situation?
5. How could the Director apply Kant's moral teaching and categorical imperative in this scenario?

**Utilitarianism**

A Utilitarian would no doubt respond differently to a Kantian ethicist in the above scenario. A Utilitarian decision based on teleology and relativism would seek to ensure that the result is the moral goodness through an application of the Principle of Utility. Applying Bentham's hedonic calculus would be relatively straightforward in the above scenario through a consideration of the pleasure ascertained through the supply of goods and services to the new customer. For example, what would the impact be on the female colleagues who were not permitted to work for that client? How likely is it that the decision will result in pain for them knowing that they had been disregarded? In addition to any legal considerations the Director may have to consider, it would presumably not result in pleasure for these colleagues ostracised from the work (assuming it is a customer they would want to work for).

A. C. Grayling in *'What is Good? The Search for the Best Way to Live'*, questions who is to tell which pleasures are higher than others. Grayling explores Mill's essay *On Liberty*, in which he concludes that *'it is essential to the best life that everyone should be at liberty to develop those faculties, and to seek the pleasures that will reward their exercise'*. Liberty is therefore integral in this decision-making process. Mill's argument that individual liberty is a fundamental right can be summed up in the following way:

*'The only purpose for which power can be rightfully exercised over any member of a civilised community, against his will, is to prevent harm to others. His own good, either physical or moral, is not a sufficient warrant. He cannot rightfully be compelled to do or forebear because it will be better for him to do so, because it will make him happier, because, in the opinion of others, to do so would be wise, or even right'*.

Act-utilitarianism considers the consequences of an action as essential in assessing whether an action is right or wrong. In contrast, rule-utilitarianism requires compliance with the rules which would lead to the greatest happiness if followed by everybody. Important questions to consider in this scenario would include: What rules should be followed? What are the possible consequences of the Director's actions? Would rules applicable in this scenario be applied to everybody through workplace legislation? It may be easier for the Director to

follow a rule utilitarian approach and of course the business would have best practice policies and procedures to adhere to. Act consequentialism would consider actions morally right or wrong as dependent on their consequences and nothing else. An act would be morally right if it maximised the good. However, this is a struggling business that would do well financially if the Director accepted the proposal.

*Extension Task: Explore Robert Nozick's "The Experience Machine" in Anarchy, State and Utopia<sup>2</sup>*

## Corporate Social Responsibility

One way in which businesses attempt to adhere to good moral behaviour is through Corporate Social Responsibility ("CSR"). This is the practice that a business has ethical responsibilities in the work that it carries out together with an expectation of behaviour by the community in which it operates and beyond.

In October 2013, the Archbishop of Canterbury, Justin Welby, said, when speaking to business and faith leaders, that any society that wants to call itself ethical in its finances *'has to find a way in which it values human beings and cares for them right across the board in every part of the society, and not just within the M25'*. His speech referred to Matthew 20: 1 – 16, in which Jesus tells a story about an employer who behaves in a way that would *'cause a riot today'*.<sup>3</sup> The Parable of the Workers in the Vineyard reveals an employer who pays workers the same amount for working shorter hours as workers who have been working all day; such business practice would be considered unethical today. Often interpreted as a promise of eternal life in the presence of God for those who convert to follow Christ late in life, it is clear that Biblical writers were interested in the practice of labour and making right and wrong decisions accordingly. Business ethics is not merely a modern notion of how to behave; it is deeply rooted in scripture.

How does this apply to CSR then? CSR is self-regulated by a business so it decides to what extent it wants to engage in actions considered to be of social good and to benefit the local and wider community. CSR may be implemented within a business supply chain to ensure that suppliers adhere to similar values and codes of practice as their customers. In 2013 the United Kingdom witnessed a horse meat scandal in which food advertised as containing beef was contaminated by horse meat. Many Irish and British supermarkets, including *Tesco*, terminated their relationship with certain suppliers as a result and went so far as placing full page adverts in national newspapers apologising for the contamination. Analysts described the impact on *Tesco* as *'a public relations blow'*.<sup>4</sup>

<sup>2</sup> <https://plato.stanford.edu/entries/nozick-political/#Uto>

<sup>3</sup> <http://www.archbishopofcanterbury.org/articles.php/5167/archbishops-speech-to-the-blueprint-for-better-business-conference>

<sup>4</sup> <http://www.bbc.co.uk/news/uk-21054688>

The most commonly practiced form of CSR is based on Archie Carroll who offers a variety of levels of responsibility within a pyramid suggesting that true responsibility involves the exercise of all four levels. Carroll and Buchholtz (2000:35) offer the following definition:

*Corporate social responsibility encompasses the economic, legal, ethical, and philanthropic expectations placed on organizations by society at a given point in time.*<sup>5</sup>



It is these expectations that are crucial to a business' decisions in every aspect of its operations. In 1970, the Nobel prize winner, Milton Friedman published an article titled *'The social responsibility of a business is to increase its profits'* and *'vigorously protested against the notion of social responsibilities for corporations'*.<sup>6</sup> This was based on the view that only humans can be responsible for their actions, managers should act in the sole interests of shareholders and social problems belong to the state rather than corporations.

#### **Questions for discussion:**

1. To what extent do you agree with Friedman?
2. In what circumstances would it be negligent to apply Friedman's premises?
3. How would a Kantian ethicist respond to Friedman?

#### **Whistle Blowing**

A whistle-blower is someone who raises concerns over wrongdoings in their workplace. Organisations will make available to their staff their Whistleblowing Policy which will outline the process for flagging a concern through their appropriate channels, either internally and/or externally. What issues does whistle-blowing raise? To what extent is an employee obliged to act beyond the remit of their individual provision of services according to moral standards, professional codes, internal policies and expectations by members of the public?

<sup>5</sup> A. Crane and D. Matten, *Business Ethics: A European Perspective*, Oxford: Oxford University Press: 2004, p. 43.

<sup>6</sup> A. Crane and D. Matten, *Business Ethics: A European Perspective*, Oxford: Oxford University Press: 2004, p. 39.

Is there such thing as moral luck in the context of whistleblowing and should a whistle-blower's motivations ever be taken into consideration? The impact of whistle-blowing on an individual and organisation can be substantial and involves the individual placing themselves in very vulnerable position.

At first glance, it may seem obvious that one would blow the whistle against wrong doing, but there may be ramifications against them on a professional and personal level. Their job security, professional reputation and trust by industry colleagues may be placed at risk. The retaliations against whistle-blowers and the pressure placed on them to a large degree outweigh the obligations imposed on them because of a wrong doing by a colleague or colleagues. The most crucial consideration for someone disclosing wrongdoing by their employer is that it will have an effect on their contract of employment. Ultimately the individual will be breaking the trust in the relationship and it will be the decision of the individual whether it is more important morally to abide by the contract of trust or to disclose wrongdoing. If wrongdoing goes against the Principle of Utility and results in negative effects on people then arguably disclosure is one's moral duty.

#### **Questions that whistle-blowing raises:**

1. Is it possible to blow the whistle and have a career afterwards?
2. What are the deontological and teleological approaches to whistle-blowing and how helpful are they to an employee raising a serious concern about a wrongdoing in their workplace?
3. Does the Principle of Utility provide a helpful method of professional moral decision-making when there is a whistle to be blown and a significant cause for concern to do so?
4. What impact does whistle-blowing have on the contract between employer and employee?

*Extension Task: Research the Libor scandal or Ponzi schemes.*

#### **Work-life balance**

Estimates from the Labour Force Survey reveal that for May to July 2017 there were 1.46 million unemployed people not in work but seeking and available to work (Office for National Statistics). The antithesis to unemployed candidates desperately seeking job opportunities is the problem of the work-life balance and trying to establish one. As businesses become increasingly conscious of the need to penny pinch and spend their money wisely and in accordance with good ethics and business needs (i.e. to make a profit), establishing a healthy balance of free time and time spent working is a hot topic. Problems employees face of balancing work commitments with child-care, for example, or couples working to maintain a loving relationship with the burden of work on their time are very real problems people face. The worries of job security, reduction of skill and desire to climb the ranks often form a conflict for employees. Such problems for some



have been deemed to be a ‘*significant challenge for long-run economic and social sustainability*’.<sup>7</sup>

Work-life balance is a focus for individuals yet not necessarily employers. The issues around establishing a balance between work and personal life are gaining increased air time especially in German politics. It would be an interesting comparison to contrast working hours and public opinion between the United Kingdom and Germany.

## **Globalisation**

Globalisation is the notion of reaching beyond borders to a global market which has arisen through the development of technology, free movement of trade and movement of people throughout the world. The application of ethical theories to globalisation is endless as it raises questions such as the exploitation of labour, resources, impact on developing countries not forgetting the political concerns along the way.

What is the impact of a company acting for itself as opposed to the wider community for a Kantian ethicist? Is there good will involved in this practice and are people or nations being treated as means, not as ends? The bishops of New Zealand addressed this in 2015:

*95. The natural environment is a collective good, the patrimony of all humanity and the responsibility of everyone. If we make something our own, it is only to administer it for the good of all. If we do not, we burden our consciences with the weight of having denied the existence of others. That is why the New Zealand bishops asked what the commandments ‘Thou shall not kill’ means when ‘twenty percent of the world’s population consumes resources at a rate that robs the poor nations and future generations of what they need to survive’.*

Pope Francis: *Laudato So*’. 2015.

The effect of the United Kingdom’s withdrawal from the European Union in 2019 will no doubt impact on globalisation and we wait to see the ramifications of this in March 2019 and beyond especially church teaching in respect of reaching beyond borders to a global market.

## **Conclusion**

Business ethics have gained momentum in recent years with significant funds invested in good business conduct. Are ethics integrated into business practices altruistically or through a fear of not adhering to current trends? It is unquestionably the outcome of business ethics that is fundamental to wider communities as global and local organisations impact on the socio-economic structures in which we live.

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<sup>7</sup> A. Crane and D. Matten, *Business Ethics: A European Perspective*, Oxford: Oxford University Press: 2004, p. 260.

### **Questions for discussion**

1. What moral values should a company uphold?
2. Why do you think ethic issues arise in relation to firms' suppliers and competitors?
3. Do you think all businesses have a corporate social responsibility?
4. How are business decisions made in practice using ethical theories?
5. To what extent do these ethical theories fall within the boundaries of corporate legislation?
6. What individual and commercial influences are there on ethical decision-making?