

BUSINESS ETHICS **Valentina GENTILE¹**

Abstract

Business Ethics is a form of applied ethics, which concerns the business world. The moral theory applied to the world of economics can be studied from an empirical and a theoretical-philosophical point of view and it has three basic levels of application: a macro level, focused on the link between state, market and society; a meso level, related to the firm as an institution; and a micro level, linked to the behaviour of individuals in economic organizations. The aim of this paper is to offer a comprehensive overview of the evolution of Business Ethics by defining also its spheres of action. Starting from the history of Business Ethics, we analyzed its levels of application and we identified the most important contributions of Business Ethics to the broad field of economics. In particular, we explain the issue of the moral status of the corporation and of its economic actors, the issue of cultural relativism in the globalized market (International Business Ethics), and the issue of the impact of consumerism and economic development on the ecosystem (Environmental ethics).

Definition. Business Ethics is a form of applied ethics, which is focused on business (Marcoux 2008). Several subjects contributed to the development of this discipline, such as law (and, in particular, civil law, labour law and international law of economy), theory of the Firm, corporate governance, political economy and moral philosophy.

Before embarking on the discussion regarding business ethics, it is necessary to clarify the meaning of applied ethics. Applied ethics can be considered as part of or,

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to be more precise, as a branch of a wider discipline, that is, moral philosophy; thus it is different from normative ethics, which investigates the rules of behavior and their principles, and different also from meta-ethics, a discipline which studies the origin of judgements and of moral considerations (Maffettone 2001). As a discipline, applied ethics originates as an application of moral principles and rules to a medical discipline (medical ethics) and, afterwards, it reaches out various fields of technology and science.² Its aim is to promote an ethical observation tightly linked to particular matters and, thus, different from a general or fundamental approach (as it is the case of normative theory and meta-ethics). However, a strict distinction between applied ethics and normative ethics could be misleading (Maffettone 2001). As a consequence, applied ethics is more and more focused on considering sufficiently general cases and on appealing to general principles and rules (Maffettone 2001).³

Business Ethics is thus a form of applied ethics, which concerns the business world. It is made up of two components: one is mainly empirical, the other one is theoretical-philosophical. (Donaldson e Dunfee 1994) The first applies techniques borrowed from finance, marketing and other fields of theory of the Firm in order to study matters related to the behavior of both enterprises and human subjects in the world of finance; the second offers a general theoretical perspective having as its main object the relation between the liberal principles of economy and individual autonomy (Maffettone 2001). Numerous studies have pointed out that there are several interconnections between the empirical approach and the theoretical-philosophical one; empirical-descriptive studies are very often an important resource in the process of justification and production of normative judgements (Donaldson e Dunfee 1994).

²With reference to this, Beauchamp defines Applied Ethics as follows, «A weaker and more defensible view is that "applied ethics" refers to any use of philosophical methods to treat moral problems, practices and policies in the professions, technology, government, and the like.» Beauchamp 2005, p.3.

³On this, see also D'Orazio (2001).

From a theoretical point of view, business ethics carries out a function of impartial justification of institutions and economic regulations as well as a normative function, that is, it identifies some necessary social norms for the self-regulation of economy. (Sacconi 2004). Generally speaking, we can distinguish among three different levels of application of the moral theory to the world of economy: a macro level, which is concerned with the link between state, market and society in a broad sense, a meso level, which refers to the firm as an institution and a micro level, which examines the behavior of individuals involved in economic organizations. (Maffettone 2001; Sacconi 2004).

The following paragraphs are aimed at offering a general introduction to the evolution of the discipline of business ethics by defining also its spheres of action.

History and evolution of business ethics. Although Business Ethics is a relatively young area of study, the relation between ethics and economics is an old one. According to Amartya Sen⁴, in his work *On Ethics and Economics* (Laterza 2002), economics, as an autonomous discipline, would have originated from the fusion of two systems of thought, one of which would have been ethical theory. According to the Indian professor, this tradition dates back to Aristotle's work. In *Nicomachean Ethics*, the Greek philosopher linked economics to politics and to ethics because "the study of economics, although it is immediately linked to the pursuit of wealth, at a deeper level, it is linked to other studies, aimed at the evaluation and promotion of more fundamental objectives" (Sen 2000, p.9).

Sen's thesis is also supported by the fact that several of the founders of classical political economy were also notable moral philosophers as in the case of Adam Smith.

Business Ethics, understood as an autonomous area of investigation, is instead rather young, since it began to be studied in the United States between the end of the Sixties and the beginning of the Seventies of the last century (D'Orazio 2001;

⁴Nobel Memorial Prize in Economic Sciences winner in 1998.

Marcoux 2008). The first contributions to the discipline was offered by Raymond Baumhart between 1961 and 1968.⁵ Nevertheless, because of the serious economic crisis United States were facing in those years, it was only from the Seventies that the debate developed and broadened. The first great conference on Business Ethics, whose title was Ethics, free Enterprises and Public Policy, took place at a university in Kansas in November 1974 (D'Orazio 2001; Marcoux 2008). The first academic positions dedicated to business ethics were created in U.S. Business Schools only after the first part of the Eighties. In 1987, while the scandal of financial espionage was affecting Wall Street, the first programme of business ethics was instituted at the Business School of Harvard (Marcoux 2008). Nowadays, business ethics is taught in several U.S. Business Schools and in philosophy departments. Starting from the first years the Eighties, the academic debate concerning Business Ethics involved European scholars. The first academic position on business ethics was created in 1984 at the Business School of the University of Nijenrode in Breuklen, Netherland. However, for several years, the main aim of European scholars was to contextualize business ethics to the economic and entrepreneurial reality of Europe. Indeed, in 1994, a handbook, whose title was Business Ethics. A European Approach, and a collection of surveys taken from European experience were published. Today, academic positions dedicated to business ethics are present in several European countries, and in particular courses and academic programs on business ethics have emerged in the United Kingdom, Netherlands, Switzerland and France.

In Italy, the new discipline found it difficult to make a reputation in the academic field. Nevertheless, with the introduction of the new university regulation⁶, courses on

⁵I am referring to the following works: Baumhart Raymond, 1961, "How Ethical are Businessmen's", *Harvard Business Review*, 39 (4): 6-9; Baumhart Raymond, 1963, "Explanatory Study of Businessmen's view on Ethics and Business", DBA Dissertation, Harvard Business School; Baumhart Raymond, 1968, "An Honest Profit: What Businessmen say about Ethics and Business", New York: Holt, Rinehart and Winston.

⁶Italian Ministerial Decree n. 509/1999

Ethics and/or of Philosophy of the Corporation has been introduced in several academic programs in Political Sciences and Economics.

The fields of business ethics. Generally speaking, it is possible to distinguish three levels of application of Business Ethics to the world of economy. While the micro level concerns with the rules for the equal exchange between individuals, the meso level is focused on the corporation and the macro deals with the cultural and institutional rules for the trading of the society as a whole.⁷

The distinction among these three levels helps us to understand the relevance and the amount of issues raised by scholars in the field of business ethics, ranging from the behaviour and responsibility of managers, workers and businessmen to the morality of the corporation up to the evaluation of governmental and public policies regarding the market, on a national as well as international level. Research areas, therefore, vary from corporation analysis⁸ to international Business Ethics, up to the recent development of environmental ethics applied to the business⁹. The following paragraphs will offer a short analysis of the fields of business ethics and of the main issues linked to it.

The analysis of corporation in business ethics. Nowadays, much scholarly works on business ethics deal with the analysis of corporations. In this sense, business ethics can be defined as the study of the behavior of individuals and corporations and of the practices that managers and firms should or should not adopt (Werhane and Freeman 2005).

The attention towards the corporation, seen as the subject of the ethic investigation, became clear since the first studies on business ethics. During the first half of the

⁷This distinction, largely employed in scholarly works, firstly appeared in the *Companion to Ethics* edited by Peter Singer, in Solomon, R.1991. "Business Ethics", Singer P. [Ed.] *A Companion to Ethics*. Malden MA: Blackwell.

⁸See also Corporate Social Responsibility.

⁹See also Sustainability.

Eighties, two essays, which still constitute the theoretical foundation for any investigation related to the corporation, were published: in 1982 Tom Donaldson, with his work *Corporation and Morality*, drew the attention of several scholars. This work was followed by Patricia Werhane's *Persons, Right and Corporations*¹⁰. In both works the ethical investigation were focused on corporations and these essays were also the first to raise some problems which are still object of academic debate, related to the "moral status" of Corporation and of the actors involved, whether they are managers, workers, etc. (Marcoux 2008; Werhane 2005).

The issue of the moral status of the corporation and of its economic actors can be divided into three streams. The first, which could be defined as ontological, considers the corporation in terms of moral agency¹¹. The second analyses the nature of the responsibility of the corporation independently from its nature of moral agent. Finally, the third stream is focused on managers' and other workers' responsibility (Werhane and Freeman 2005).

With respect to the first point, the main problem concerns with the possibility of conceiving of the corporation as a moral agent. This idea derives from an analogy with the legal system, since, at law, the corporation has a legal personality distinct from the personality of its owners and shareholders. Thus, if it is a "legal person"¹² similarly the corporation might be considered as a moral entity or a "moral person"¹³. However, some critics highlight the fact that the corporation should be understood as an association of persons. In this perspective, it would not be possible to attribute to the corporation actions which are carried out by individuals who are part of it.¹⁴ Linked for some reasons to the previous point, the second issue deals with corporate responsibility. Generally, the problem is handled in terms of social contract theory (stakeholder theory). In this respect, between 1994 and 1995 Donaldson and

¹⁰Donaldson (1982) e Werhane (1985).

¹¹This problem is defined in terms of *moral agency*.

¹²With reference to this, Marcoux argues that in Anglo-American law corporate personality is frequently described as a legal fiction, in this sense corporation's personality is not also an ontological fact.

¹³See also French (1979) quoted in Marcoux (2008) and Werhane (2005).

¹⁴Velasquez (1983) quoted in Marcoux (2008) and Werhane (2005).

Dunfee suggested the Integrative Social Contract Theory. In their opinion, it is possible to consider each rational individual as capable of accepting an hypothetical macro-social contract which could enable economic communities to have a significant space of free moral choice where it could be possible to generate one's own rules of economic behaviour through micro-social contracts. In other words, according to these two American authors, at a macro level there would be general moral standards ruling economic relationships towards which enterprises and economic actors are bound.

Finally, with reference to the role of managers and workers, it is possible to distinguish at least two important issues: the first concerns managerial responsibility, while the second is focused on workers. In the first case, the main problem is to understand if managers responsibility is limited to the obligations tied to the role they play within the enterprise. In this perspective, the debate is about the possibility of extending the content of the "role's obligation" up to include some general norms of moral nature (Werhane and Freeman 2005). In the second case, on the contrary, most of the scholarly work is focused on the nature and the purpose of employee rights.

International business ethics. The internationalization of corporations and the globalization of financial markets of the last two decades have had such a great impact on Business Ethics that a new field of investigation has emerged: International Business Ethics. The main moral issue raised by the globalized market concerns cultural relativism: considering that ethical practices deeply differ from one country to another one, can we conceive of a universal moral standard for all the economic actors applicable to very different contexts? In this respect, in 1989, Donaldson suggested a solution that would have guaranteed the respect of fundamental human rights though preserving cultural difference, through a minimum list of moral standards which would have bound international economic subjects to respect freedom of association, of speech and movement, ownership, right to an equal judgement, without any discrimination, physical and psychological security,

right to bare minimum subsistence and education (Donaldson 1989). However, supporters of a relativistic account criticizes this idea of a minimum moral standard, since they argue that cultural differences generate moral, unsolvable differences among societies. In this perspective, general moral standards, aimed at solving disputes generated by peculiar moral values, do not exist.

Nevertheless, most of the scholars agree on the existence of a minimum set of universally accepted moral standards, generally recognized in the Universal Declaration of Human Rights of 1948. Recently, the Global Compact, supported by the **United Nations**, represented a further step in this direction. It offers a globally accepted code of conduct for economic actors. Among the principles supported by the Global Compact there are the prohibition of complicity in cases of human rights violation, the support to freedom of association and collective bargaining, the prohibition of child labour and the abolition of every form of work discrimination (Marcoux 2008).

Environmental ethics applied to the business world. In the last years, the environmental issues have been increasingly associated to the economic development. As a consequence, much scholarly work have been done on this nexus trying to understand the impact of consumerism and of economic development on the ecosystem. The main issue concerns with the impact of globalised market and of multinational corporations on the relation between the North and the South of the world.

This aspect has brought to the development of two different positions. Indeed, according to a first group of scholars (Myers and Simon 1994), economic growth and consumerism of the industrialized countries are unsustainable from an environmental point of view and destructive on the ecologic side and, thus, they cannot be carried out in less developed countries. On the contrary, a second group of scholars emphasize the progress made by multinational corporations in achieving a more sustainable development, with special attention to new technologies and biotechnologies. In this sense, multinational corporations turn out to be a motivating

force for the economic growth of less developed countries (Werhane and Freeman 2005).

However, the most important issue in this field is concerned with the relation between economic development and the future of the planet. In this respect, several works have been focused on the argument related to future generations: since there are not so certainties about the future of the planet, it is necessary not to threaten life opportunities of future generations (Werhane and Freeman 1999).

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