

Corporate Ethics and Sustainability

HSLU, Semester 5

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I Glossary

Accountability Duty to explain decisions and answer for their consequences.

Act utilitarianism Assessment of an individual action by its consequences for everyone affected.

Autonomous rational actor Individual capable of reasoning and making self-directed moral decisions.

BE Business ethics: the study of right and wrong in business conduct.

Categorical imperative Unconditional moral requirement used to test whether an action is ethical.

CE Corporate ethics: ethical principles guiding corporate decisions and behaviour.

Corporate governance Structures and rules through which a company is directed and controlled.

CSR Corporate Social Responsibility: meeting society's economic, legal, ethical, and philanthropic demands.

Dilemma Situation in which competing choices involve conflicting values or duties.

Distributive justice Fairness in how outcomes are distributed, using principles such as need or merit.

Egoism Ethical approach based on pursuing one's own desires or interests.

Ethical absolutism View that universal, objective moral principles exist.

Ethical pluralism Acceptance of different moral backgrounds while seeking shared basic principles.

Ethical relativism View that morality depends on personal or cultural context.

Ethical theory Framework of rules and principles used to assess what is right or wrong.

Ethics Study of morality and the principles underlying right and wrong.

Ethics of duties Ethical approach based on rationally derived moral rules.

Explicit CSR Social responsibility expressed through distinct corporate activities and programmes.

Externalities Effects of an activity on others that are not reflected in its market price.

GCG Good Corporate Governance: transparency, accountability, responsibility, professionalism, and fairness.

GDP Gross Domestic Product: the value of final goods and services produced within a country.

Globalization Growing connections that reduce the importance of territorial boundaries.

Government System of institutions that makes and enforces public decisions and laws for a society.

Homogenisation Process by which cultures, products, or practices become more similar to one another.

Human dignity Inherent worth of human beings that demands respect.

Human rights Basic, inalienable entitlements inherent to all human beings.

Implicit CSR Social responsibilities embedded in society's laws, institutions, and traditions.

Internationalization Expansion of activities across national borders while they remain anchored in particular countries.

MNC Multinational corporation: a company operating in more than one country.

Morality Norms, values, and beliefs defining right and wrong for individuals and communities.

NGO Non-governmental organization: an organization independent of government.

Philanthropy Voluntary contributions to social welfare, such as donations and community support.

Procedural justice Fairness of the processes through which decisions are made.

Rule utilitarianism Assessment of rules by the consequences of their widespread adoption.

Shareholder Person or organization that owns shares in a company.

SME Small or medium-sized enterprise.

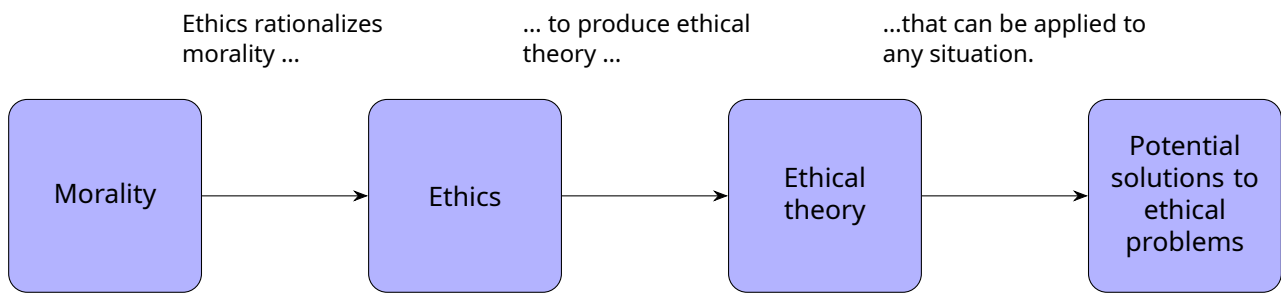
Stakeholder Group or individual who can affect or is affected by the achievement of an organization's objectives.

Utilitarianism Ethical approach seeking the greatest overall good for everyone affected.

Westernization Spread or adoption of Western cultural practices, values, and institutions.

1 Introduction to Business ethics

1.1 Morality vs Ethics vs Ethical theory



1.1.1 Morality

Norms, values, and beliefs in social processes, which define right and wrong for individuals and communities.

1.1.2 Ethics

Study of morality that focuses on explaining rules and principles that determine right or wrong.

1.1.3 Ethical theory

Rules and principles are called ethical theories.

1.2 Why is business corporate ethics important

- Power/influence of business in society (eg. lobbies, multinationals, banks)
- Potential to provide major contribution to society → provide employment, tax payments, solve social problems (eg. health)
- Malpractice can inflict enormous harm to society or environment (eg. accidents)
- Increasing demand from stakeholders/society to act ethically
- Lack of business ethics education or training
- Businesses face trust deficit
- Growth of business ethics 'industry' (consultants, ethical products/services)

1.3 Large vs small companies

- SMEs differ in their approach to business ethics:
 - Lack of time and resources
 - Less responsibilities to stakeholders
- Large companies have much more formalized approach to manage BE

Stakeholders	Large corporations	Small businesses	Civil society organizations	Public sector organizations
Responsible and/or accountable to	Shareholders and other stakeholders	Owners	Donors and clients	General public, higher level government organizations
Main constraints	Shareholder orientation; size and complexity	Lack of resources and attention	Lack of resources and formal training	Inertia, lack of transparency

1.4 Globalization

- Globalization is a process which diminishes the necessity of a common and shared territorial basis for social, economic, and political activities, processes, and relations ("deterritorialization")
- Globalization makes real-time social, political, economic, and cultural exchanges possible between people and organizations without the need for physical contact

Globalization was supported by two main developments:

1. Technology (communication, transportation, digital financial streams)
2. Policy (national territorial borders have been eroded)

1.4.1 Effects

- European financial crisis → events, which have local roots, have effects on seemingly disconnected places
- Global climate change → Local causes leads to global problems and global solutions (eg. Kyoto Protocol)
- Acts of Terror → events, people or ideas from faraway places can have effects on people on unconnected locations/situations (eg. security checks in airports)

1.4.2 Ethics in the context of globalization

- Topics like fair trade, food prices, financial stability have set ethical spotlight on globalization process
- MNCs (Multi-National Corporations) are at the center of public's criticism on globalization → accused to exploit workers, cause environmental destruction, abuse their economic power
- Globalization is the most demanding area for corporation to define and legitimate their "right and wrong" behavior

1.5 Concepts distinct from globalization

1.5.1 Internationalization

Internationalization is the expansion of activities across national borders while those activities remain anchored in particular countries.

1.5.2 Westernization

Westernization is the spread or adoption of Western cultural practices, values, and institutions.

1.5.3 Homogenisation

Homogenisation is the process by which cultures, products, or practices become more similar to one another.

1.6 Relevance of globalization for business ethics

1.6.1 Cultural issues

- Corporations increasingly engage in overseas markets
- Confronted with new, diverse or even contradictory ethical demands

1.6.2 Legal issues

- Linked to relationship between ethics and law
- Transactions lose connection to certain territorial entity
- Escape legal control of national governments
- Globalization increases demand for business ethics (beyond control of national governments)

1.6.3 Accountability issues

- Some MNCs are as economically powerful as entire countries
- How to control MNCs, which have higher revenues than GDPs of entire countries?
- Demand for corporate accountability

Stakeholders	Ethical impacts of globalization
Shareholders	Globalization provides potential for greater profitability, but also greater risks (e.g. financial instability).
Employees	Provides jobs but also raises the potential for exploitation of employees through poor working conditions.
Consumers	Global products provide social benefits to consumers across the globe, but may also meet protests about cultural imperialism and westernization. Globalization can bring cheaper prices to customers.
Suppliers & competitors	Suppliers in developing countries face regulation from MNCs through supply chain management. Small-scale indigenous competitors are exposed to global players.
Civil society (NGOs, etc.)	Globally active pressure groups emerge with the aim to “police” corporations where governments are weak.
...	...

1.6.4 International differences in approaches

	Europe	N. America	Asia
Who is responsible for ethical conduct in business?	Social control by the collective	The individual	Top management
Who is the key actor in business ethics?	Government, trade, unions, corporate associations	The corporation	Government, corporations
What are the key guidelines for ethical behaviour?	Negotiated legal framework of business	Corporate codes of ethics	Managerial discretion
What are the key issues in business ethics?	Social issues in organizing framework of business	Misconduct and immorality in single decisions situations	Accountability

2 Framing business ethics

2.1 Stock corporation

A corporation is defined in terms of legal status and the ownership of assets:

- Legally corporations are independent from those who manage, work, invest in them or receive products or services from them
- Corporations have perpetual succession

2.2 Corporation assets owners

- A corporation owns its own assets (eg. factories, equipment)
- Shareholders only own share, which entitles them to dividends and some decisions

2.3 Implications of corporation definition for determining responsibilities

- Corporations are regarded as “artificial persons” in the eyes of the law
→ have certain rights and (legal) responsibilities in society
- Corporations are “owned” by shareholders, but exist independently of them
→ shareholders are not responsible for debts or damages
- Managers and directors have responsibility to protect investment of shareholders

2.4 Can a corporation have social responsibility?

- Only human beings have a moral responsibility for their actions
- It is managers’ responsibility to act solely in the interests of shareholders (profit oriented)
- Social issues and problems are the proper province of the state rather than corporate managers
→ corporations should not decide what is in society’s best interest

2.4.1 “The social responsibility of business is to increase its profits”

- Corporations can decide/act independent of their members
→ Corporate internal decision structure based on predetermined goals
- All corporations have a set of beliefs and values (organizational culture)
→ Influence on individual’s ethical decision-making and behavior
→ Corporations present and interact with stakeholders as if they were distinct persons
- Corporations have some level of moral responsibility that is more than the responsibility of the individuals constituting the corporation

2.5 Why do corporations have and take on social responsibilities?

2.5.1 Internal business reasons (“enlightened self-interest”)

- Extra and/or satisfied customers/employees → enhances long-term revenues
- Cost reduction due to increased sustainability → saving energy, waste reduction, less inefficiencies
- Manage risks and uncertainty
→ Committing to social actions/programmes may forestall legislation
→ Prevent penalties
- Long-term investment which benefits corporation → Maintaining consent of local communities, employees, governments

2.5.2 Moral reasons

- Corporations cause social problems (externalities)
→ Moral responsibility to deal with them (eg. pollution, resource depletion, community problems)
- Corporations should use their power responsibly
- Corporations rely on the contribution of a wide set of stakeholders in society, not just shareholders
→ Have a duty to also take into account the interests of stakeholders

2.6 Corporate Social Responsibility (CSR)

CSR = Attempt by companies to meet economic, legal, ethical, and philanthropic demands of a given society at a particular point in time

2.6.1 Four-part model of CSR



The model does not address problem when different layers are in conflict.

2.6.2 International context

- CSR is particularly strong in US, where companies are responsible for CE
→ Explicit CSR = distinct activity of corporations
- Other countries operate in a more implicit CSR:
 - Social responsibilities embedded in legal/institution framework of society
 - Sometimes based on religious, customary, tribal traditions

Examples of regional differences within different CSR levels:

Economic (focus) responsibility	Legal responsibility
US: focus on shareholders. France: extensive responsibility for employees.	EU: state seen as key enforcer of rules. Elsewhere: government seen with more scepticism.
Ethical responsibility	Philanthropic responsibility
Wide range of local ethical values and preferences. Different opinions towards topics like nuclear power, genetic engineering, animal testing, and such.	Europe: donations are observed critically. US, India, China: tradition/expectation to share their wealth.

2.6.3 Strategies of CSR – Traditional vs. contemporary CSR

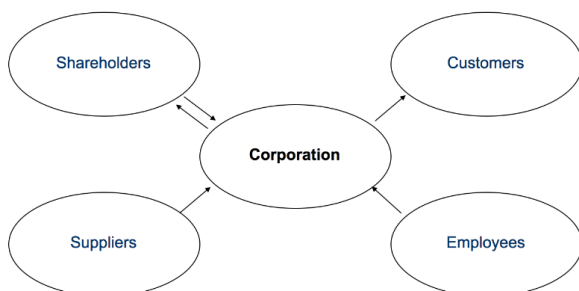
	Traditional CSR	Contemporary CSR
Focus	Risk	Reward
Driver	Image, brand, public acceptance	Performance, markets, products
Relation to bottom line	No direct contribution: CSR is value distribution	Integral goals: CSR is value contribution
Responsiveness	Reaction, defence	Pro-action
Motto	'CSR is bolt-on'	'CSR is built-in'

2.7 Stakeholder theory of the firm

- CSR approach focuses on types of responsibilities of corporations towards society and specific stakeholders
- A stakeholder of an organization is any group or individual who can affect or is affected by the achievement of the organization's objectives (Freeman)
- 'Affects' and 'affected by' can be explained by two principles
 - Principle of corporate rights → Corporation has obligation not to violate the rights of others
 - Principle of corporate effect → Companies responsible for the effects of their actions on others
- Stakeholders vary from company to company and for the same company in different situations

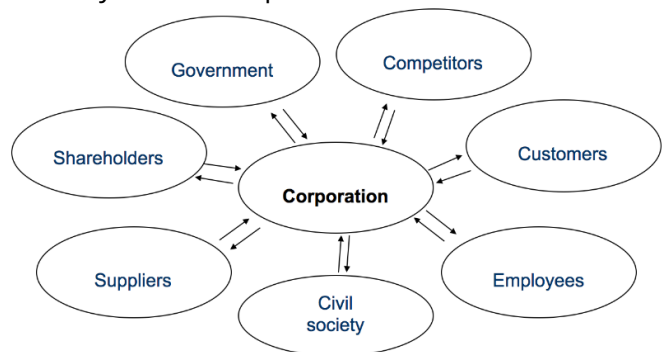
2.7.1 Traditional management model

Corporation is only related to four groups



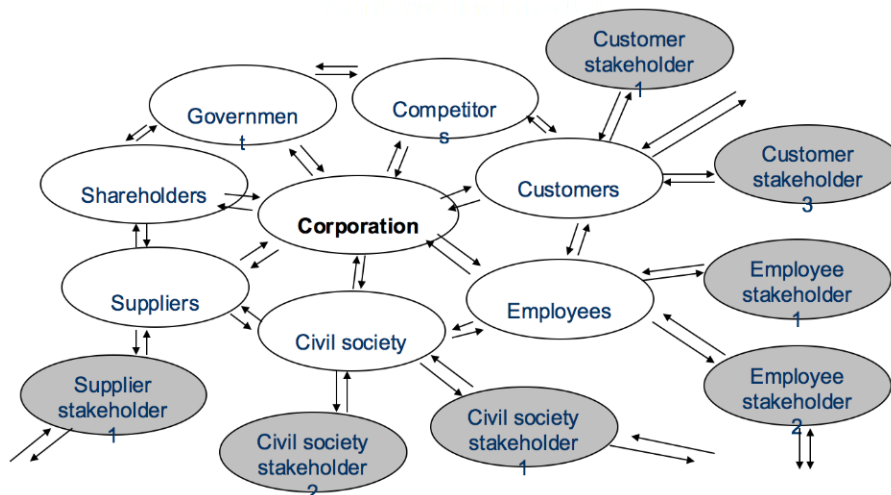
2.7.2 Model of stakeholders view

Corporation is situated in centre of interdependent two-ways relationships



2.7.3 Network model

Considers also stakeholders' obligations to their own stakeholders



2.7.4 Role of management

Broader view of responsibility towards multiple stakeholders demands a new role for management

- Model of stakeholder democracy
→ Stakeholders influence and control corporate decisions – feasible?
- Model of corporate governance
→ Codifies and regulates various rights of stakeholder groups – which?



GCG = Good Corporate Governance

2.7.5 Stakeholder thinking in an international context

International examples of stakeholder integration

- German supervisory boards of corporations must include employee representatives
- “Scandinavian Cooperative Advantage”
→ Participative management strategies (consensus building, stakeholder involvement)
- Keiretsu system in Japan (Chaebol in Korea)
→ Network of banks, manufacturers, suppliers and service providers
→ Member companies own small portions of shares in each other’s companies

2.7.6 Different forms of Stakeholder theory of the firm

Normative stakeholder theory

Attempts to provide a reason why corporations should take into account stakeholders interests

Descriptive stakeholder theory

Attempts to ascertain whether (and how) corporations actually do take into account stakeholders interests

Instrumental stakeholder theory

Attempts to answer whether it is beneficial for corporations to take into account stakeholders interests

2.8 Corporate citizenship (CC)

2.8.1 Corporation as a political actor

Areas where corporations have taken on a political role:

- Corporations take responsibility to provide basic services
→ Privatisation of water, electricity, education, health care, basic transportation, public safety, telecommunication

- In governments, which lack resources (less-developed countries)
→ Corporations finance basic services (eg. road constructions)
- Governments can only address social problems within their reach
→ Global financial markets or internet are spaces often governed by businesses

2.8.2 Social role of corporations

There are 3 conceptual perspectives:

- Limited view of CC: equates CC with corporate philanthropy
- Equivalent view of CC: equates CC with CSR
- Extended view of CC (political CSR): acknowledges extended political role of corporation in society

	Limited view	Equivalent view	Extended view
Focus	Philanthropy, focused on projects	All areas of CSR	Citizenship: social and political
Main stakeholder group	Local communities, employees	Broad range of stakeholders	Broad range of citizens; society in general
Motivation	Primarily philanthropic; also economic where citizenship is 'strategic'	Mixed – economic, legal, ethical, philanthropic	Political

3 Evaluating business ethics

3.1 Ethical theories

3.1.1 Normative ethical theories (focus on this session)

Attempts to explain the morally correct way of acting

3.1.2 Descriptive ethical theories (focus on next session)

Attempts to describe how ethics decisions are actually made in business

3.2 Role of ethical theories

3.2.1 Ethical absolutism

- Claims that eternal, universally applicable moral principles exist
- Right and wrong are objective qualities
- Can be rationally determined
- (Typically) Non-consequentialist traditional ethical theories

3.2.2 Ethical relativism

- Claims that morality is context-dependent and subjective
- No universal right and wrongs that can be rationally determined
- Depends on person making the decision
- Depends on culture in which they are located
- (Typically) Contemporary ethical theories

3.2.3 Ethical pluralism

- Middle ground between absolutism and relativism
- Accepts different moral backgrounds
- Suggests consensus on basic principles/rules in social context

3.3 Classical ethical theories

3.3.1 Theory of egoism

- An action is morally right if in a given situation
→ All decision-makers freely decide to pursue their (short-term) desires or their (long-term) interest
- Justification: humans only have limited insight into the consequences of their actions
→ Only suitable strategy to achieve good life is pursuing own desires/interest
- Adam Smith's "invisible hands":
→ Free competition and good information creates a moral outcome
→ Everyone gets to participate equally in the market, bad behavior will be punished

3.3.2 Utilitarianism

- Foundation is the "greatest happiness principle":
→ An action is morally right if it results in the greatest amount of good for the greatest amount of people affected by the action
→ Maximize utility of actions
- Egoism focuses on individuals, utilitarianism focuses on collective welfare
- Close to cost-benefit analysis (pleasure/pain, happiness/unhappiness)

$$\sum \text{Pleasure} - \sum \text{Pain} = \text{The majority} = \text{Utilitarianism}$$

Example of a Utilitarianism analysis:

	Doing the deal		Not doing the deal	
	Pleasure	Pain	Pleasure	Pain
Product manager	Good deal; personal bonus	Bad conscious; company reputation	Good conscious; no risk	Loss of a good deal
Thai dealer	Good deal			Loss of a good deal; Search for a new customer in Europe
Parents	Secure family's income	Limited prospects for children		Search for other sources of income
Children	Feeling of being needed; being grown up	Hard work; no chance of school education		Potentially forced to do other, more painful work
Grandmother	Family is able to support her / not being alone			Loss of economic support / feeling alone

Problems with utilitarianism

- Subjectivity on assessing gains and pains of an action
- Quantification and comparability issue (eg. can losing a good contract be compared with child labour?)
- Distribution of utility → interests of minorities are overlooked (eg. children)

3.4 Refined theories

3.4.1 Act utilitarianism

Looks at a single action and bases moral judgement on its consequences for everyone affected, choosing the action that produces the greatest net benefit.

Example

A factory manager compares running an extra weekend shift to produce urgently needed hospital equipment with keeping the factory closed. If the benefits to patients and the extra income for workers outweigh the workers' fatigue and the additional costs, act utilitarianism supports the extra shift in this particular situation.

3.4.2 Rule utilitarianism

Looks at general rules and judges actions by whether they follow rules whose widespread adoption would produce the greatest net benefit for society in the long run.

Example

A company follows the rule "Give customers truthful information about products", even when a misleading advertisement could increase sales in a particular case. Rule utilitarianism supports this rule because its widespread adoption helps customers make informed choices, prevents harm, and builds long-term trust in markets.

3.5 Ethics of duties (Immanuel Kant's approach)

Ethics of duties is defined by a set of rationally derived moral rules.

Categorical imperative constitutes a test whether an action is ethical:

Maxim 1. Consistency

→ An action is only right if the rule that guides certain behavior is followed by everyone

Example: Do not make false promises to customers; if everyone did, promises would lose meaning.

Maxim 2. Human dignity

→ An action is only right, when respect of humans as autonomous, rational actors is preserved

Example: Give workers full information about risks so they can freely decide whether to accept a task.

Maxim 3. Universality

→ Rules should be acceptable by everyone

→ Tries to overcome the risk of subjectivity

Example: Use hiring criteria you could justify to every applicant, including those rejected.

Example 1: A company hides a product defect to increase sales.

- **Consistency:** Fails; universal deception would undermine trust in product claims.
- **Human dignity:** Fails; customers cannot make an informed choice.
- **Universality:** Fails; deceived customers could not reasonably accept this rule.

Example 2: A company discloses a product defect and offers a free repair or refund.

- **Consistency:** Passes; all companies could follow this rule without contradiction.
- **Human dignity:** Passes; customers receive honest information and a free choice.
- **Universality:** Passes; fair remedies for defective products are reasonably acceptable to all.

Example

You are the product manager of a company manufacturing small plastic toys and got in contact with a Thai manufacturer, which could produce your toys at a third of the current cost

During a visit at the manufacturer you recognize that there is no workshop. Instead at 6am 30 men line up at the company's gate and take the toy components to their homes

You demand to visit one of their homes and discover that children (5–14 years old) assemble the toys together with their parents, while the grandmother is preparing the food in a room next door

The company ensures you that this a well-established practice in Thailand and would guarantee a high quality standard

Questions

Consistency: Does every Swiss company operating globally use child labour?

Human dignity: Have the children been regarded and respected as autonomous rational actors?

Universality: Has everyone identified as an autonomous rational actor find this practice acceptable?

3.5.1 Problem with 'Ethics of duties'

- Undervaluing outcomes → the theory does not assess outcomes of the actions (non-consequentialist theory)
- Complexity
 - Kant's categorical imperative requires high level of abstraction
 - Difficult to apply in each and every case
- Optimism → theory is quite optimistic (view of humans as rational actor)

3.6 Ethics of rights and justice

- Based on human rights
 - Basic, inalienable entitlements that are inherent to all human beings, without exception
- Rights also result in duties of other actors to respect them
 - Similar to Kant's approach
 - However, "Ethics of rights and justice" does not rely on determining rights/duties through the categorical imperative
 - Rights/duties are based on consensus about the nature of human dignity
- Human rights is one of the most fundamental theoretical approaches of modern CE (UN's Universal Declaration of Human Rights)
 - More than 7000 corporations have signed the UN Global Compact
 - Increasing number of businesses develop their own human rights policies ("Ruggie Principles")

3.6.1 The problem of justice

Justice = simultaneous fair treatment of individuals in a given situation with the results that everybody gets what they deserve

Theories of justice see fairness in two ways and justice would ideally seek to achieve both types of fairness:

1. Fair procedure

→ Fairness is judged based on the transparency of the processes by which decisions are made (procedural justice)

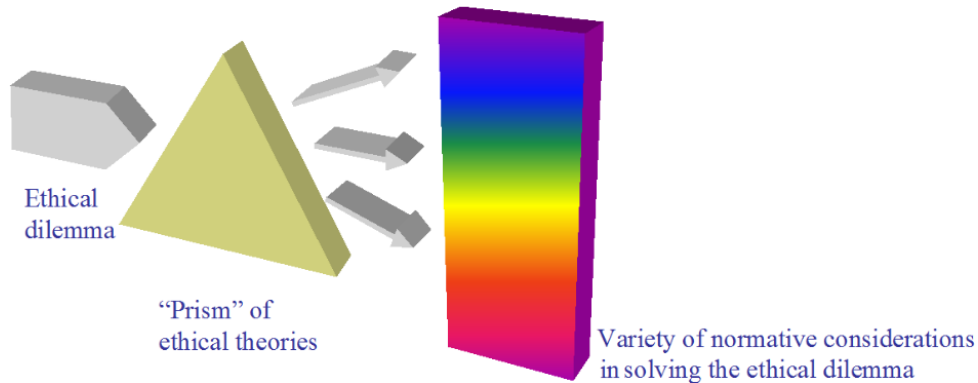
2. Fair outcomes

→ Fairness is judged whether consequences are distributed in a just manner based on some underlying principles as need or merit (distributive justice)

3.6.2 Limits of traditional theories

- Too abstract → managers are unlikely to apply abstract principles
- Too reductionist
→ each theory tends to focus on one aspect of morality → why choose consequence, duties, rights when all are important
- Too rational → theories don't consider moral feelings and emotions (humans are rational actor)
- Too imperialistic → why assume that ethical theories from the West are suitable for businesses else in the world

3.6.3 Pragmatic use of ethical theory – Prism model



4 Making decisions in business ethics

4.1 Descriptive ethical theories