

**THE UNIVERSITY OF HULL**

**MORAL REGULATION IN BUSINESS: AN INVESTIGATION INTO  
CORPORATE CODES OF ETHICS**

being a Thesis submitted for the Degree of Doctor of Philosophy  
in the University of Hull

by

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June 1994

## ABSTRACT

This thesis provides an investigation into company codes of ethics and their part in the moral regulation of UK business. Codes of ethics have been adopted by many firms in the UK over recent decades, and the use of codes also comes highly recommended within the literature on Business Ethics. So, the purpose of this thesis will be to investigate how these codes are used in practice, why they have emerged in the first place, and what potential they might hold.

Part One of the thesis will attempt to establish the present condition of company codes of ethics. This will begin by tracing the history of company codes of ethics, and the factors which have influenced their emergence. Subsequently, the ideological positions which underpin these codes will be exposed by examining the extent to which they express social responsibilities or mask other ideological undercurrents such as managerialism. This will be followed by an investigation into their general effects on actual business practices. The final chapter in Part One will attempt to provide an account of the ways in which these codes are limited as regards the regulation of business practices. Currently, they are restricted to a largely apologetic role with regard to existing business practices, and they have a very limited critical potential. A number of recommendations will then be made in order to overcome the various inadequacies at each stage of code implementation.

Part Two of the thesis will begin by exposing the assumptions about morality which underlie the use of existing company codes of ethics. The employment of these codes presumes a very limited conception of the moral agency of business persons, where obedience may be considered to be their primary virtue. The orthodox company code takes little account of the interpretive powers of its subjects, or their ability to deliberate on moral matters. Therefore, in order to overcome these limitations, an alternative format for the design and implementation of codes will be proposed. This format will be constructed with questions to enrich one's moral thinking, rather than simply in terms of commands that one should follow. This question code could be referred to in order to uncover any illegitimate rationalizations which might be used to support unethical business practices. A dialogical framework for implementing a code will be examined in order to address the political and ideological problems which may permeate moral thinking within an organization.

Finally, the philosophical foundations of this thesis will be interrogated. The Enlightenment tradition of philosophy will be shown to underpin much of the existing work on business ethics, where it also informs the impoverished moral debates within the institutions of modern Liberalism. At best, the focus on codes neglects a rich seam of ethical thinking - virtue theory - and, at worst, it may be merely a mask for power, hiding the arbitrariness of moral decision making in contemporary business.

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## ACKNOWLEDGEMENTS

I would like to extend my gratitude to the Department of Management Systems and Sciences for the research scholarship which enabled me to embark upon this thesis. And, of course, I would like to thank my supervisor, Patrick Maclagan, for his guidance over the past few years. I have greatly appreciated the friendship of my fellow research students, Mike Charlton and Tim Scott, whose wit and conversation has added much spice to the research ordeal. The list of those who contributed to this thesis in some way is potentially endless, but I feel that a few of their names must be given some acknowledgement, Dean Baines, Chris Boar, Alex Lawlar, Dom Coutts, Fritz, Mike Munro, Trudy, and my Dad. My thanks to you all.

# *Part One*

## CHAPTER ONE

### INTRODUCTION

A company can have a profound impact on the lives and welfare of those who are affected by its activities. People in business can be burdened with a wide range of moral concerns, including responsibilities towards their family, their colleagues, the company shareholders, the consumers, the local community and the general public. But, how is it possible to weigh up and fulfil such a diverse range of responsibilities?

Moral questions can be raised concerning many diverse aspects of business practice. The increasing influence of special interest groups, such as the environmental and consumer movements, give some indication of the moral inadequacies of contemporary business culture. Even those working within the business community have expressed moral concerns about what goes on in their own companies. They may be faced with an array of morally questionable practices, including environmental pollution, unfair discrimination, the health and safety of employees and consumers, the quality of working life, and the uncritical support of the arms industry; this list is by no means a comprehensive one.

One response to this state of affairs has been the emergence of company codes of ethics. But, how can such codes help a person, immersed in business affairs, to address their moral concerns? Do they provide any real guidance in answering the fundamental moral question, "What is the right thing to do here?"

## **1.1 The Structure of the Thesis**

The aim of this thesis will be to investigate how company codes of ethics are presently used in the moral regulation of business, and furthermore, what potential they might have in this endeavour. This thesis is divided into two main parts. The first part will be concerned with the present condition of company codes of ethics, their formulation and enforcement. Subsequently, in Part Two a proposal for a quite different form of code will be developed in an effort to overcome the moral limitations of existing company codes of ethics.

Usually, company codes of ethics are framed as lists of values and guide-lines for business practices. Ideally, these codes can be used to set out the responsibilities of a company's members to the company itself and to external stakeholders such as the consumers and the local community. Much of Part One of this thesis will be devoted to a critique of the formulation and enforcement of these orthodox company codes; this will be based on survey evidence gathered largely from the UK and the US.

This critique will also be supported by a survey of UK companies that was carried out for the purposes of this research. This involved a questionnaire which was sent to the two-hundred largest firms in the UK. Company representatives were asked to return a brief one page questionnaire and any ethical policies that operate within their company. The findings of this survey are described in the Appendix. Together with other existing surveys of company codes this has provided the empirical basis for the critique set out in this thesis.



Company codes of ethics will be analyzed both in terms of their ideological underpinnings and their overall effectiveness. Chapter Two initiates the investigation by tracing the origins of company codes in terms of the social trends which have influenced their emergence. This provides some initial indications about company codes, whether they truly reflect the good intentions of the business community, or whether some other explanation is needed for their emergence. These observations will then be taken up in more detail in the Chapters Three through to Five.

Codes of ethics might address many important social issues, but at the same time, they might also hide certain ideological interests. In Chapter Three company codes will be examined to uncover their ideological undercurrents. On the one hand, they will be analyzed in terms of how they represent corporate social responsibilities. Do they deal adequately with important social issues - issues which are of direct relevance to business activities? In answering this question some difficulties will arise in defining what is meant by the term social responsibility. This can be addressed broadly by examining how codes represent the concerns of various interest groups including consumerism, environmentalism, and trade unionism. And legislation may also be used to provide a yardstick for the minimum social responsibilities of business.

A more radical explanation for company codes can be given in terms of the social strains from which they have emerged. This is superficially indicated by the controversy over what constitutes a firm's social responsibilities. In fact, there is a danger that company codes may be used for the very opposite of their ostensible purposes. That is, they may be used within a company to suppress moral deliberation rather than to encourage and develop it. Thus, in Chapter Three there will be a discussion of the ways in which moral concerns are interpreted within a company. It may be the case that those who uncritically

obey a code's prescriptions or rely on the interpretive skills of a code's enforcers will betray their own sense of responsibility and undermine their moral autonomy.

Furthermore, the implementation of company codes will be examined for traces of managerial and corporate interests. If company codes are infused with the interests of a particular social group, management for instance, then they may actually serve to protect managerial interests rather than the public good. This being the case they would not provide a fair representation of the moral point of view.

Following from this ideological analysis, the aim of Chapter Four will be to consider the general effectiveness of corporate codes of ethics. In gauging the effectiveness of a code some knotty problems are again encountered concerning the interpretation of codes. For example, the more a code's rules are open to interpretation, the less obvious it becomes when a code is being adhered to or transgressed.

Despite the many problems associated with the measurement of code effectiveness, an attempt will be made to determine the extent to which those companies which have adopted their own codes are successful in, a) fulfilling a diverse range of social responsibilities, and b) implementing their code. Initially, this will require an investigation into how the rhetoric presented in a code relates to the working practices of a company. Do codes describe an ideal vision of business practices which is yet to be realized, or do they describe existing practices which are already considered to be ethical? If the latter, then it would not be surprising if companies did in fact measure up to requirements of their codes of ethics. Another indication of a company's success in fulfilling

its social responsibilities maybe the extent to which it satisfies the demands of critical interest groups, such as environmental and consumer pressure groups.

In order to gain a more comprehensive understanding of the effectiveness of codes, an investigation into how they are actually implemented will be undertaken. The implementation of company codes will be broken down into three general areas of analysis: the mechanisms for their dissemination, the channels for reporting ethical concerns, and the mechanisms for discipline. The role of punitive sanctions in code enforcement will be challenged in this analysis. It may be that many business persons do not see the use of punitive sanctions as an appropriate way of enforcing a company code of ethics. The possibility of enforcing discipline without punishment will therefore be considered as a more humanist method for implementing company codes. Of course, even a non-punitive approach to code enforcement should be considered with regard to its moral implications. The danger remains that a non-punitive approach to discipline will be reduced to a more subtle way of manipulating the workforce.

If company codes of ethics are not effective then the possible reasons for this must be investigated. A self enforced code will be unlikely to make much of a difference within a company if it does not represent the moral concerns of its subjects. There may be other pressures within an organization which predispose its members to behave irresponsibly. Many ethical problems experienced within a company may themselves be rooted in deeper social currents, such as cut throat competition and the culture of bureaucratic individualism. The aim of Chapter Five will be to examine how the implementation of company codes may be restricted by these constraints. Can a code be critical of existing business practices in some way, or is it limited to an apologetic role? Chapter Five will examine the extent to which a code can

be effective in the face of other pressures to behave unethically and institutionalized unethical behaviour. Arising from these limitations there is the danger that company codes may be used within business to divert attention away from irresponsible institutions onto individual scapegoats.

Based on the many criticisms of company codes which are raised in Part One, several recommendations will be made to ensure their just and effective implementation. These recommendations will address how they may be implemented fairly, with respect to the interests of a diverse range of company stakeholders. However, even when they are implemented fairly, it will be shown that company codes of ethics still suffer from many inherent limitations; this brings us to Part Two of this thesis.

Part Two takes a very different tack to addressing the question, "What is the right thing to do here?" In Chapter Six the actual format of codes of ethics will be scrutinized and the assumptions underlying this format will be exposed. The idea that business activities can and should be regulated through the use of codes of ethics itself presupposes a very limited understanding of morality. To what extent, for example, can these codes encompass ideas such as a respect for persons and their moral autonomy? There are particular uses of company codes of ethics that may actually pose a threat to people's moral autonomy, and indeed, this will be a recurrent theme throughout Part One of the thesis.

In Part Two a break will be made with the orthodox form of code in order to overcome the inherent limitations of existing company codes. Essentially, these limitations will be found to be rooted in the moral assumptions which underlie the codes. These codes purport to represent the values of a particular group - the company - and yet they are based on the assumption that the company's values are commensurate with wider social values. Furthermore, they are

grounded on the assumption that morality has its origins in the society rather than in the will of the individual. And it is from this position that many of the ideological weaknesses of company codes arise.

In order to overcome these moral limitations an alternative form of company code of ethics will be proposed in Chapter Six. The orthodox form of company code presumes a particular view of human beings (business persons), whose primary virtue is that of obedience. In contrast to this, an alternative code of ethics will be designed on the assumption that individuals do have some grasp of what is right and wrong, and that they are capable of making their own moral decisions. Moral deliberation may itself be considered a virtue. To encourage moral deliberation in business an alternative form of code will be designed as a list of questions. By following this question code, business persons may be able to realize their active role in interpreting moral problems and making moral choices at work. This proposal will focus less on setting out conclusive answers to business problems and more on *the process* of finding some answers.

Therefore, the aim of Chapter Seven will be to examine the grounds for making a just decision in business. Without such grounds the moral questions that may be included within the text of a code will be arbitrary. In fact, this is one of the criticisms which will be aimed at the existing attempts at designing so called "ethics checklists" for business persons. On the whole, these existing attempts do not provide a coherent moral epistemology for understanding moral concerns in business or for making just decisions. They will also be criticized on the grounds that they do not provide any methodological assumptions in their design, they embody a fairly superficial level of moral reasoning and are likely to support the premature ending of moral inquiry.

Moral epistemology, that is how moral knowledge may be gained, will be a central concern in the design of this alternative company code. Ideally, the questions in a code should embody a respect for the moral agency of business persons. Not only should it engender fair decision making, but these decisions must be arrived at from the individual's own interpretations, without reliance of the interpretive skills of some dominant power group within the organization. In this light, the alternative code can be more appropriately termed a "code of ethical reasoning".

Many problems might be confronted when implementing such a code, both in terms of its relation to individual persons and the organizational culture as a whole. The way individuals receive a question code will be somewhat related to how they interpret business problems in moral terms and how they act on their interpretations. But fair business decisions may also be impeded by the political network of an organization. The proposal of the question code presumes that moral decisions originate from the will of an individual within an organization. Although this will be presented as the question code's main strength in Chapter Six, in that it captures moral ideals such as autonomy and a respect for persons, it also gives rise to some methodological weaknesses. The question code provides nothing to overcome any obstacles to making fair decisions in a company except the reason and goodwill of the individual. Therefore, the aim of Chapter Eight will be to discuss the ways in which moral thinking can be distorted within a business organization.

This will revolve around a discussion of processes of reification, rationalization and ego defense which can permeate the culture of an organization. This investigation will bring into question the adequacy of a purely monological approach to the moral issues of an organization. Moral concerns arise and circulate within an organization through the use of dialogue, not just in the

minds of self reflective individuals. This implies that moral reasoning and critical self-reflection must become an explicit element of the organisation's everyday decision making processes. No doubt the implementation of a question code would prove futile if there were no forums for raising ethical concerns within an organization. Initially, such a code could be introduced through an ethics education programme. This programme could discuss the interpretation of moral issues with some reference to the questions set out in the code. Then this could be further reinforced by democratic open forums in which any employee (or stakeholder) may raise their ethical concerns, and even challenge the moral grounds of company policy.

The closing chapter of this thesis will reflect back on the movement of the thesis as a whole. The bulk of this research can be seen as a response to the question, "What is the right thing to do here?" However, so far the ethical question, "How should I live my life?", has not been addressed; indeed, it has been largely neglected in the study of business ethics in general. That is not to say that company codes should address such a personal ethical matter, but nevertheless it shows that these codes neglect a huge domain of moral inquiry. This observation gains significance in terms of a virtue ethic, which entails an examination of the relationship between codes of ethics, the moral knowledge they represent, and the actual institutional practices within business.

If we are to grasp the nettle of business ethics tightly, a rather disquieting explanation might be given for the recent proliferation of company codes of ethics. The discussion in Chapter Nine will bring into question whether or not company codes of ethics can lead to a rational resolution of conflicting values and interests. The nature of moral disagreement will be considered in this chapter. Can company codes be used to appeal to the moral motivations of business persons, or are they merely disembodied intellectual procedures? It

will be argued that the predominant forms of moral debate within liberal society are incommensurable. In this light it would seem that the proposals for an ideal code as set out in Parts One and Two of this thesis will be fruitless.

The ethics of modern liberal society may be characterized as code orientated, where ethical behaviour is defined largely in terms of codes, and ethical problems are addressed by the increasing elaboration of codes of conduct. The idea of a virtue ethic questions the relationship between a moral code and the character of those who created it and abide by it (or infringe it). The code mentality neglects the actual physical and intellectual practices through which a person's ethic can be cultivated. At best, it would seem that codes of conduct within liberal institutions prove to be superficial attempts at moral regulation, divorced from the moral motivations of their subjects. At worst, they may be part of a normalizing framework which privileges the moral interpretations of professionals, and undermines the capacity of their subjects to make moral choices independent of the institutional authority structure.

Understanding the kind of physical and intellectual practices which predominate in contemporary business is central to exploring the possibilities for business ethics. The proliferation of codes of ethics is a sign of the times, a reflection of a modern liberal ethic which demands the ever increasing elaboration of rules and regulations, rights and responsibilities. However, it is difficult to see how the business community could be persuaded to behave more responsibly without first examining the moral character and institutional practices of this community. At present, codes are being used to some small effect in the moral regulation of business in setting out some corporate social responsibilities. But, beyond this they are unlikely to lead to any challenge to the institutional practices of the business community and the effects of these practices on the moral motivations of their subjects.



## **1.2 Towards a Working Definition of Business Ethics**

The idea of business ethics has proven itself to be a somewhat slippery concept to pin down. This is so because there are many different perspectives concerning the nature of ethics and the proper role of business. Some academics have disputed that business is a proper object for ethical analysis in the first place (Friedman, 1962; Drucker, 1982; Ladd, 1970). Others have asked whether those studying business ethics should act as apologists for business, or whether they ought to play a more subversive role (Yeo, 1993)? The range of moral theories that have been used to analyse business practices is vast, including among others, the systems of Aristotle, Kant, Mill, Sartre, Rawls, Habermas and MacIntyre. These systems offer quite different explanations of moral behaviour and it is not clear to what extent they share any common ground. The idea of corporate social responsibility has emerged as a central concept in business ethics, yet the content of even this concept is constantly under dispute (Friedman, 1962; Carroll, 1989; De George, 1990; Goodpaster, 1993). This state of affairs has led to some extremely vague and diffuse definitions as to what business ethics actually entails, the broadest of which is probably, the systematic handling of values in business (Donaldson, 1989; Philips, 1993).

This thesis will draw on ideas from many different sources in its critique and development of company codes of ethics. But before embarking on this critique, a brief statement will be made concerning the idea of business ethics which underpins the major movements of this thesis. This initial statement will highlight some basic errors of two prominent critics of business ethics and then present a working definition of business ethics from a Kantian perspective.

### 1.2.1 Some Early Criticisms of Business Ethics

Business ethics as a movement has been challenged from its outset (Drucker, 1982; Friedman, 1962). This challenge did not come from philosophy but from mainstream theorists in management and economics.

The economist Milton Friedman has argued that the current moral rules and values of society are quite appropriate for business to regulate itself by. According to Friedman the only social responsibility of business is to make profit since that is its distinctive purpose. This may be an over simplistic description of both society and ethics because it fails to recognize the importance of moral conflict and controversy in society. It does not distinguish between our actual moral behaviour and the principles by which we ought to live; and it underplays any possible criticism of current social values and practices.

The popular management author, Peter Drucker has also denied any value in the study of business ethics. At one point in his critique he accuses business ethics of business baiting, and then at another, of becoming an apologist for business. There is no middle ground according to Drucker. He compares business ethics to the casuistic philosophy of three-hundred years ago, which assumed that rulers are under different obligations from their subjects; they must subordinate their own interests and morals to the interests and morals of those who they rule over. This Drucker likens to the concept of corporate social responsibility. The analogy suggests that business persons are exempt from the demands of ethics if only their behaviour can be shown to benefit others.

To a large extent, the findings of the present thesis agree with Drucker's observations. There is some evidence that company codes of ethics are used to protect those who draw them up (Chapter Three). They contain a company bias and may be used to reinforce managerial power. However, business ethics does not claim that business persons should operate under separate moral rules that are not binding outside business. In fact, business ethics draws mainly on the universalist theories of philosophers such as Kant and Mill. Drucker's criticism is more properly aimed at the way companies have been using ethics for Public Relations purposes. Business ethics, at least as an academic pursuit, need not be reduced to casuistry. This can be clearly demonstrated with a brief description of business ethics in terms of a Kantian approach to morality; an approach which has probably been the greatest single influence on moral philosophy during the emergence of the modern liberal democracies.

### **1.2.2 The Instrumentalization of Persons**

It is not uncommon to hear the term "oxymoron" in the opening speeches of a conference on Business Ethics. This description of business ethics is then passed over as simply too cynical or pessimistic. The following discussion will not pass over the problem so lightly. Might there be some validity in this description of Business Ethics as a contradiction in terms? A Kantian interpretation of the problem of business ethics certainly comes close to agreeing with this.

For Kant, the essence of a moral relationship between persons was that they treat each other as ends-in-themselves. This is the second formulation of the Categorical Imperative (Kant, 1785). In his search for the grounds for morality, Kant stated that,

"Persons.... are not merely subjective ends whose existence as an object of our actions has a value *for us*; they are *objective ends* - that is, things whose existence is itself an end, and indeed an end such that in its place one can put no other end to which they should serve simply as a means; for unless this is so, nothing at all of *absolute* value would be found anywhere"  
(1785, p.91)

Respect for persons is therefore a necessary condition for morality to exist at all. But how is this relationship relevant to business ethics?

Business necessitates the consideration of persons as a means. This is highlighted in business theory by concepts such as "human resource management", where human beings are considered to be productive units subject to the same laws of organization as machines and raw materials. Under the impelling laws of bureaucracy and the division of labour persons lose their status as ends-in-themselves. Even the characterization of persons as customers, suppliers, shareholders, competitors, and employees are characterizations of persons as instruments of the company. In contemporary business ethics literature this taxonomy of persons has become innocently known as the stakeholder model. Instrumentalization is central to the business vocabulary. That is not to say that this is wrong in itself, it is merely to point out that the business relationship involves a tendency to instrumentalize persons, which contains no equivalent movement to consider these persons as ends-in-themselves.

Business and ethics may not be oxymoronic, but under this interpretation they appear to be opposing tendencies. One being a tendency towards the

increasing instrumentalization of persons, and the other being a tendency towards greater consideration of persons as ends-in-themselves.

### **1.2.3 A Kantian Grounding for Business Ethics**

Kant's response to the problems of ethics was to formulate the Categorical Imperative (Kant, 1785). This attempts to provide a reasoning process whereby any rational person can apparently discover whether or not a particular action is moral. It involves a process of universalization, that is,

"Act only on that maxim through which you can at the same time will that it should become a universal law." (Kant, 1785, p.84)

Kant proposed that any code of morals that did not meet this basic requirement would be irrational and therefore immoral. A crude interpretation of this procedure is that it tests to see whether you are being hypocritical and exempting yourself from standards which you would wish everyone else to live by. Some of the most prominent liberal philosophers of this century have developed their own work along very similar lines, including John Rawls, Richard Hare and Jurgen Habermas. An assumption common to all these moral theories is that there is no logical reason to count the interests of any one individual as more or less important than the interests of any other. In the following chapters of this thesis these ideas will be extended to the formulation and implementation of company codes of ethics.

A neo-Kantian approach to business ethics can be applied to the analysis of company codes on two levels. First, it can be used as a guide for finding the

right rules to set down in a company code. For example, the idea of treating people as ends-in-themselves has clear implications for policies concerning unfair discrimination, the health and safety of employees and customers, and the relationship of a company with its local community. In the second place, this approach to business ethics may be used to explore questions of due process in the formulation and enforcement of codes. This is of particular importance for the present thesis, because the responsibility for interpreting a code's rules must always, inevitably lie beyond that code. The burden of the moral decision rests with the decision maker and not with the authority of the company code.

The underlying movement of this thesis will be to incorporate a stronger notion of the moral autonomy of business persons into company codes of ethics. This is coupled with a respect for all those persons who may be affected by a company's business activities. This movement will be driven by a Kantian framing of the question of business ethics, with its emphasis on universalizing procedures.

Kant's moral framework emerged against a backdrop of popular revolution against the traditional aristocracy in Europe and America in order to found democratic republics. This period of European history is known as the Enlightenment, and Kant himself gave the defining statement of what this era may mean for us,

“Enlightenment is escape from self-inflicted immaturity. An immature person lacks the courage to use his own intelligence without another's guidance. *Sapere aude!* [Dare to Know!] Men who remain permanently immature from laziness and

cowardice make it easy for others to act as their guardians....”

(Kant, 1784, p.140)

In this pronouncement Kant begged his fellow men to think critically about their own lives, and warned against their utter dependence on experts and advisers in determining their destiny. Kant thus placed enormous emphasis on the idea of moral autonomy, an idea which will be shown to have profound importance for codes of ethics in Chapter Six. This element of Enlightenment philosophy can be seen to have influenced many philosophers since Kant’s day, however, this thesis will not be restricted to Kantian philosophy for its ideas, and will wander further afield in its critique and development of company codes of ethics. For example, the work of Alasdair MacIntyre and Michel Foucault will be drawn upon where it is useful to discuss their critical analysis of modern institutions (Chapter Three, Chapter Nine). Although these two philosophers have been ardent critics of the Enlightenment project, they nevertheless share its concern for freedom, and the dangers involved in relying on the interpretive powers of experts, notably therapists and managers. Only in the final chapter of this thesis will the Kantian view of morality be fully challenged with specific reference to the work of MacIntyre (1984, 1985, 1988, 1990), and his idea of virtue theory.

Now to the initial examination of company codes of ethics and their emergence over recent decades.

## **CHAPTER TWO**

### **THE ORIGINS AND EVOLUTION OF COMPANY**

#### **CODES OF ETHICS**

This chapter lays the foundations for a critique of company codes which will then be elaborated in the subsequent chapters. An inquiry into the origins and evolution of company codes will be useful insofar as it builds a context into which the social significance of codes can be placed. Where, indeed, have the ethical convictions of the business community sprung from?

The first part of this chapter will identify some recent social trends in North American and European countries which coincide with the emergence of company codes of ethics. This will be followed by an examination of particular organizational features which are associated with the presence of company codes of ethics. Finally, the texts of the codes themselves will be analyzed since they may also give some indication as to their origins.

#### **2.1 The Origins of Company Codes of Ethics**

Over the last three decades a large number of surveys have been concerned with the emergence of company codes of ethics (Benson, 1989; Brooks, 1989; Centre for Business Ethics, 1986; Conference Board, 1987, 1992; Cressey and Moore, 1983; Opinion Research Corporation, 1980; Holt, 1980; Manley, 1992; Mathews, 1987; Montgomery and White, 1980; Melrose-Woodman and Kverndal, 1976; Sanderson and Varner, 1984; Schlegelmilch and Houston,



1988; Schlegelmilch and Langlois, 1989; Webley, 1988, 1992; Winfield, 1990). Why have company codes merited such academic interest? These surveys found that companies in North America and some European countries have become increasingly interested in implementing their own codes of ethics. An international survey of company codes found that only fifteen percent of these had been initiated before 1967 (The Conference Board, 1987). Their emergence appears to have been both recent and sudden. So what has happened to trigger this?

### **2.1.1 Legal Pressures**

There have been pressures upon companies from many directions to become more sensitive to moral issues. Today the mass media is hungry to feed on the scandals of the business world. The Ford Pinto case in the US, and the Zeebrugge Ferry disaster in the UK are typical examples where business practices have caused public outrage. Irresponsible working practices almost appears to be the norm within industry (Jones, 1988). Even those services supposedly dedicated to the public welfare have been shown to be riddled with corruption, as illustrated by a constant stream scandals in the UK and US such as Watergate, Irangate, and Iraqgate.

Western societies have become increasingly legalistic with escalating crime rates. Notably, there has been a corresponding awareness of white-collar crime, especially in the US (Hochstedler, 1984). In the 1970's in the US, the Securities and Exchange Commission, the Department of Justice, and the Internal Revenue Service combined forces to launch an investigation into foreign and domestic bribery in large US companies. They discovered that out

of the 900 companies investigated by the S.E.C., 300 had 'slush funds' which were being used for bribing government officials (Benson,1989).

A host of white-collar crimes have been recognized in the Western law courts including bribery, extortion, fraud, and embezzlement. In the US and the UK it is now possible to prosecute a corporation in the criminal courts despite the difficulty in attributing mens rea (criminal intent) to the corporate body. The white-collar offenders are losing much of the privileged legal station that they might once have had (Sutherland, 1949, 1945).

In the US the proliferation of company codes has been linked directly with legislation, notably the Foreign Corrupt Practices Act of 1977 (Benson, 1989). This act was introduced following the bribery investigations by the S.E.C. Comparable findings have been made in the UK surveys (Melrose-Woodman and Kverndal, 1976). The growth of British company codes, although much lower than in the US, is associated with the introduction of legislation such as the Health and Safety at Work Act (1974), the Equal Pay Act (1970), the Sex Discrimination Act (1975), and the Employment Protection Act (1978). One explanation for this trend may be that business corporations resent the interference of government. In this light, the adoption of codes of ethics by corporations could be seen as an attempt to stem the tide of government regulation (Benson, 1989; Cressey and Moore, 1983; Melrose-Woodman and Kverndal, 1976). But this proposition cannot provide a comprehensive explanation for the growth of company codes since one early survey has reported that,

"Most corporate respondents do not believe that the code has resulted in litigation, the withdrawal of government rules or

regulations, or in government's decision not to impose rules or regulations." (Opinion Research Corporation, 1980, p.10)

If this is the case, then the main reason for the introduction of a code is unlikely to be to check the tide of government regulation. Instead, codes may have become popular because they are perceived as a form of legal protection for the company and its officers. In fact, in the same survey of US firms this was one of the most common reasons given by respondents for the adoption of a code (The Opinion Research Corporation, 1980). This is hardly surprising in a highly litigious society such as the US. The fact that the United Kingdom is a less litigious society than the United States may go some way to explain why company codes are far less common in the former, and also why companies in the UK are less concerned with enforcing their codes (Appendix B).

### **2.1.2 Legal Histories of Corporations**

There is no evidence to suggest that company codes of ethics are introduced to reduce legal violations, nor is there evidence that codes can have any affect on a company's legal history (Mathews, 1987). Therefore, it would seem that although legislation has been influential in the emergence of company codes, the codes are not expected to replace such legislation.

A company's size and industry far outweigh any affect that a code of ethics might have on its legal record. This could be attributed to the more hostile legal environments of certain industries such as the food, drug, and medicine industries. Taken together these findings are unusual because a company's legal violations are positively related to its size and industry, but then, so is the presence of a code of ethics. The only significant relationship that has been

uncovered here is that specific categories of code content are, in fact, associated with higher legal violations (Mathews, 1987). Surprisingly, a US survey has observed that those codes which mentioned employee integrity and compliance affidavits tend to belong to companies that had higher rates of legal violations. Mathews has speculated that this might be due to a history of previous yet undetected illegal activities within these corporations.

### **2.1.3 The Rise of Special Interest Groups**

Another social trend which may have greatly influenced business attitudes is the growth in the size and number of pressure groups over the past few decades. Trade Unions were the first groups formed to protect employees against abuse from their employers in the early nineteenth century. More recently environmental and consumer pressure groups have evolved in reaction to the abuses of the environment and the general public by powerful corporations. The *New Consumer* (No.10, Jan-March, 1992) listed over forty companies which had been the subject of a consumer boycott in the UK between 1990 and 1992. Publications such as *The Green Consumer's Guide* (Elkington and Hailes, 1989) and *Shopping for a Better World* (Adams et.al, 1991) provide the public with a source of information concerning the un/ethical business practices of the companies whose products they buy.

Since its founding in 1971 Greenpeace membership has grown to over three and a half million people world-wide. Such pressure groups have at last grown wary of the activities of businesses and governments. The fruits of our commercial existence have become unacceptable in terms of the damage to the environment and the welfare of our citizens.

There is some evidence to suggest that codes are used to appease these interest groups. In the United States codes are often used in public relations exercises (The Opinion Research Corporation, 1980). However, this is not so apparent in the UK where codes are rarely distributed to stakeholders outside the company (Schlegelmilch and Houston, 1988; Winfield, 1990; Appendix). The ethical policies and practices of a company are often described in its annual report which is distributed to its shareholders. Although these documents are rarely sent to outside interest groups in the UK, they are often publicly available and are clearly concerned with the image of the company (Appendix).

Therefore, we can see that the rise of industrialization has brought with it many undesirable effects which have led to powerful movements within society to change business attitudes. But are these trends directly linked to the recent popularity of company codes of ethics in Western business?

#### **2.1.4 National Trends**

Two international surveys have found that company codes are more common in some societies than in others. Company codes of ethics are significantly more common in US and Canadian firms than in European and Japanese (The Conference Board, 1987; Schlegelmilch and Langlois, 1989). There are also significant differences in code adoption between France, Germany, and the UK. Therefore, it would appear that the business communities of different societies do not react to their social pressures in quite the same ways. This is apparent in the above discussion which contrasted the legal environment of the UK with that of the US.

### **2.1.5 What the Companies Say**

In the United States the most common reasons given for adopting a code were that it is expected to provide legal protection for the company and its officers and that it will maintain public credibility (The Conference Board, 1987; The Opinion Research Corporation, 1980). The former reason reflects the highly legalistic culture of the United States. Unlike their US counterparts, companies in the United Kingdom only feel the need to justify their position when they have not adopted their own code of ethics (Appendix). Apparently, it is assumed by the representatives of UK firms that their codes of ethics contain their own justification.

The following reasons were given by UK companies for why they had not adopted their own code: the company culture is already ethical, the company structure is inappropriate for a single code of conduct, or ethical conduct is already covered by other rules. These factors cannot be taken as decisive for code adoption because many of those companies which had adopted codes also exhibited these characteristics. On the whole there appears to be little consensus within the business community concerning a rationale either for or against codes. The representatives of those companies which had adopted their own code of ethics did not justify this position in response to the questionnaire (Appendix). This might indicate that these codes have been accepted quite uncritically. At least this observation gives us cause to question the rationale that underlies company codes, which will be exposed in the following chapters.

The reasons for adopting a code which are implicit within the documents themselves include the following: the clarification of policy, moral obligation, improving staff and customer relations, communicating policy to the public, and a response to social pressures (Melrose-Woodman and Kverndal, 1976). These

reasons need not be disputed, but nevertheless, they do not appear to have been decisive factors in the adoption and development of the codes. This can be confirmed through an analysis of the content of codes and the type of companies which tend to adopt them. Whatever these companies maintain, some insights can be gained into the rationale for adopting a code of ethics by analyzing the characteristics common to those companies which have pursued this form of self-regulation.

### **2.1.6 Company Size**

Large firms are more likely to have adopted their own code of ethics than smaller ones. The size of a firm may be judged in terms of many different factors such as profit, sales turnover and the number of people it employs. And there may be a different relationship between any one of these factors and the presence of a company codes (Montgomery and White, 1980; Schlegelmilch and Houston, 1988; Mathews, 1988; Melrose-Woodman and Kverndal, 1976; Opinion Research Corporation, 1980; Holt, 1980). One survey of British firms in 1976 found that most firms with codes tended to have over 3000 employees (Melrose-Woodman and Kverndal, 1976). As size increases in any of these terms the likelihood of code adoption also rises.

One can only speculate on the nature of the relationship between a company's size and its ethical standards. Some authors have claimed that high ethics companies tend to have higher profits (Pastin, 1986; Peters and Waterman, 1982). But does this imply that a firm will make more profit as it becomes more ethical, or conversely, does it become easier for a firm to be more ethical as it makes more profit? Recent research into corporate crime has found that illegal behaviour is more likely in firms which operate in munificent

environments (Baucus and Near, 1991). Furthermore, the growth of company codes does not appear to falter during times of economic difficulties (Melrose-Woodman and Kverndal, 1976). These findings indicate that there is no obvious direct relationship between a firm's profit and its adoption of a code of ethics. It would seem therefore that codes do not arise to counter specific competitive or pecuniary pressures to behave unethically at work.

When considered in terms of the number of employees, the size of a company has been found to be directly related to the likelihood of code adoption. As a corporation becomes larger the pressure may grow for more rigid bureaucratic controls. Thus, corporate codes of ethics can be seen to be an extension of the desire for bureaucratic controls in large corporations (Holt, 1980). Even so, the survey findings can be used to illustrate a few inconsistencies in this regard (Appendix). A number of respondents from large companies stated that an umbrella code of ethics would not be appropriate for their company because of its decentralized structure. The great size of these companies did not influence them to adopt codes of ethics to regulate the behaviour of their members. It may be that the decentralized companies are not so bureaucratically minded as centralized ones. On the other hand, one company stated that, in fact, its decentralized structure was the reason why they were considering the adoption of a code, in order to provide its parts with a common sense of purpose.

### **2.1.7 Industrial Trends**

Codes of ethics are more common in some industries than in others. In the UK, firms in the industrial sector are far more likely to have adopted their own code of ethics than firms in the service sector (Melrose-Woodman, 1976; Schlegelmilch and Houston, 1988). In the US, company codes are most



common in the agricultural, manufacturing, and service industries and less so in transportation and utilities industries (Montgomery and White, 1980; The Opinion Research Corporation, 1980). Apparently, the reason for this variation is that some industries tend to be more subject to public criticism than others (Melrose-Woodman and Kverndal, 1976). For example, heavy manufacturing industries tend to produce more pollution and involve more dangerous manufacturing processes than service industries, which puts these firms in a very delicate public relations position. Many companies which operate in these sensitive areas have extensive documents as a testimonial to their efforts (Appendix).

### **2.1.8 Codes as a Fashion**

A convincing though cynical explanation for the emergence of company codes of ethics is in terms of fashion. If most company codes have their origin in fashion then this may point to a flaw in them from their outset. In the words of Ferdinand Tonnies, fashion

"is superficial and lacks roots in the folkways. It is soulless custom." (1961, p. 128)

It is possible that a few dominant companies have set the trend for industry and the rest have followed. This would provide us with a less than virtuous motive for the growth of company codes over recent years. It is supported by the fact that some companies have developed their own codes after looking at the codes of other companies (Ethics Resource Centre, 1980), and many codes are based on existing codes of conduct from other areas of business (Appendix B). These guides are found in a variety of sources including the existing company rules

and practices, the practices of client and supplier companies, professional codes, legislation, and the codes of parent companies. These observations serve to highlight the influence of external authorities on the emergence of company codes, but more evidence is needed to show that they are a mere fashion.

The emergence of codes in particular industries could be explained if it is true that companies mimic the leading firms within their own industry. Large firms which are in the public eye might be looked upon as trend setters. Firms which have a high public profile are often the one's subjected to the greatest public and legal pressures. The urge to set out a clear moral position will be felt most acutely where companies operate in areas of social controversy. The adoption of a written code of ethics may result from this desire to portray an ethical image.

However, a company need not be huge to have a high public profile. Some companies, such as the Body Shop and the Cooperative Bank, have raised their public profile by adopting what is perceived to be an ethical position in business. The ethical policies of the Body Shop may well have had some influence on the policies of other firms in the cosmetics and other industries.

This "ethical" fashion has not arisen solely from within the business community. As has been suggested already, the consumerist movement may have provided a powerful stimulus for company reform. One illustration of this can be seen in the economic success of the Cooperative Bank subsequent to its adoption of a code of ethics. This bank restricts its investments and account holders on the grounds of its ethical code. This code expresses a concern for both human rights and animal rights. Indeed, Terry Thomas, the managing director of the Coop Bank restricts his firms business dealings based on a (black)list of

companies from Amnesty International. Despite operating a strict ethical policy the bank does not appear to have suffered any economic handicap (*The Independent*, Thursday 18th March 1993). Similarly, ethical investment funds have out-performed their 'serious' rivals in a time of recession (*The Independent*, Thursday 29th April 1993). This suggests that there has been a genuine ethical commitment underlying the current fashion, at least in some cases.

The sudden proliferation of company codes in only a few years is another typical feature of a fashion. Few UK companies appear to have adopted a code of ethics before 1980, most having been adopted in the latter part of the decade (Appendix; Schlegelmilch and Houston, 1988). In the most extensive survey of UK company codes to date Webley (1992) found that a far greater proportion of companies had adopted their own code of ethics since his previous survey in 1987.

In the US some believed that the ethical code movement had already passed by the end of the 1970's (Cressey and Moore, 1983). On the other hand, there are those who remain convinced that company codes of ethics are not a passing fad (Benson, 1989). Although it is true that the corporate code movement became most fashionable in the late seventies in the US and in the early eighties in the UK, there is some evidence to suggest that interest in this movement has persisted. Many companies have updated their code since its adoption, and the adoption of such codes is continuing to grow both in the US and in the UK (The Centre for Business Ethics, 1986; The Conference Board, 1987; Webley, 1992).

The sustained level of interest in company codes does not overcome the criticism that they may be superficial and soulless. Indeed, it has been

suggested that these codes are representative of a failure at the heart of business ethics (MacIntyre, 1985; 1990). The codes may be symptomatic of a business community which has no adequate moral tradition to which it can appeal. This leaves people without a moral framework through which they may understand their behaviour. This critique and its implications for business codes of ethics will be discussed in greater detail later in this thesis.

### **2.1.9 The Founding Fathers**

Some moral substance may be found to underlie company codes of ethics by looking to the who initiated them. In a few cases a company's moral mission can be traced back to the religious and philosophical beliefs of its founder (Melrose-Woodman and Kverndal, 1976). A number of firms are notable for the philanthropic acts of their founders, such as Cadbury's, The John Lewis Partnership, The Quaker Oats Company, and The Scott Bader Company Ltd. These organizations were all founded on Quaker principles. This is consistent with the view in organization theory that founders can make a dominant impression on the culture of an organization (Schein, 1985). At least one attempt has been made to show how a company code of ethics had originated and developed from the ethical beliefs of its founder (Oliverio, 1989).

However, it would be naive to believe that these founders have such a direct influence over the working practices of their firms today. On the contrary, company codes of ethics could be seen as an attempt to reinvent a corporate culture. The traditions of a company to which its code may appeal need not be historically accurate in order to lend it an aura of legitimacy. For example, one fascinating study of the history of the Cadbury sweet makers has demonstrated how the company's religious ideal,

"gave the firm an identity which made it special, imbued with a morality probably perceived as lacking elsewhere." (Rowlinson and Hassard, 1993, p.321)

This study also concluded that Cadbury's religious ideal was probably not a decisive influence on the management-labour practices of the firm. The belief in its influence is largely the outcome of an invented tradition which has been used to give the firm a specific identity, an identity that may well have been contrived to serve the particular dominant interests at work within the company. Of course, this mythology is still severely limited by its acceptance by the organization's members (Rowlinson and Hassard, 1993). Thus, to trace the origins of company codes is not necessarily to discover their purpose. This understanding of company documents can be used to explain the difficulties involved in tracing the origins and development of any particular company code. Yet, drawing on the content of the codes themselves for discovering their origin or purpose might still have some value in terms of exposing an invented tradition.

One of the dangers of codes lies in their appeal to corporate traditions, where this may be done in an attempt to portray a sense of moral community, because in our liberal pluralist society there may be no adequate social tradition on which business persons can ground their decisions (MacIntyre, 1985, 1990). If this is the case then the rulings of written codes merely work to disguise the arbitrary ways in which the moral problems of business persons are resolved. This problem will be returned to in subsequent chapters (Chapter Three, Chapter Nine).

In the majority of cases company codes do not appear to have been based upon the beliefs and attitudes of a single founder, but they have not been drawn up democratically either. An international survey of codes has found that only fifty-five percent of European codes have some employee representation, this proportion is even lower in the US (The Conference Board, 1992). Even in cases where there was some employee representation, the extent of this is unclear. In the survey findings set out in the Appendix no company described a formulation process where all its employees were represented (Appendix B).

Are company codes the offspring of a particular interest group within the business community? The answer to this question will bring to light the ideological grounds from which they have emerged. The surveys of firms in the US and UK have found that company codes are initiated, drafted, and enforced overwhelmingly by the top management of companies (Appendix B; The Conference Board, 1992; The Opinion Research Corporation, 1980). Neither union nor government endorsement is sought for the vast majority of codes. Furthermore, shareholder owners are never responsible for initiating a code of ethics in their company (Opinion Research Corporation, 1980; Melrose-Woodman and Kverndal, 1976).

To some degree the rise of company codes has represented business problems in professional terms. The predominance of management in the implementation of company codes may be associated with a movement towards the increasing professionalization of management. Company codes of ethics often refer exclusively to the managers of the company (Appendix; II Opinion Research Corporation, 1980; Schlegelmilch and Houston, 1988).

Therefore, we can see that corporate codes are the offspring of a distinct interest group within corporations - the top management layer. Is it a

coincidence that this is also where much of the power in a corporation lies? The following chapter will be devoted to this question and its implications.

### **2.1.10 A Symbolic Starting Point?**

Why is it that formal documents have been chosen to represent business ethics rather than some other means for ethical improvement? It can be argued that codes provide a very limited conception of ethics, where this conception has become predominant in the modern era (Foucault, 1986). The proliferation of rules of behaviour to regulate every aspect of social life is characteristic of the modern era, most notably in the form of legislation and bureaucracy. Therefore, it is hardly surprising that business ethics have been initially conceptualized largely in terms of rules and procedures. Indeed, Brooks (1989) has observed that a Canadian firm can have as many as twelve codes of ethics from different sources applying to its members.

Surveys have found that formal codes of ethics are by far the dominant official means to promote ethical values within the corporate culture. In the US, firms which have not adopted a code of ethics tend not to use any other methods for institutionalizing ethics (The Centre for Business Ethics, 1986). A comparable observation has been made concerning firms in the UK (Schlegelmilch and Houston, 1988; Winfield, 1990). In this country most companies (81%) with codes and about half (49%) of those without have some processes to deal with ethical matters (Schlegelmilch and Houston, 1988). These other procedures for institutionalizing business ethics include ethics training programmes, non-executive directors, social audits and ethics committees. The implication of these findings is that those companies which have adopted their own code of ethics are also more likely to be concerned with ethical matters in other ways.

Thus, formal codes would appear to be a symbolic starting point for the circulation of ethical concerns within a firm.

Formal codes of ethics can be seen as an extension of company policy, although they offer a far from exhaustive description of business ethics. A code might be used to officially lay down the limits of moral criticism within a company. By using a list of values to ostensibly anchor a firm's ethical practices, a code can be accommodated within the existing company hierarchy and is therefore unlikely to expose any of its underlying power relations - power relations which may themselves lead to the suppression of certain moral concerns. Again, these initial observations will be discussed in greater detail in the following chapters.

## **2.2 The Influences on Code Structure and Content**

Now that the emergence of company codes has been discussed in terms of social trends and organizational pressures, this investigation will move on to explore any trends in the content of company codes, and whether these trends can give any indication as to their origins. It may be noted that those trends which have influenced the adoption of a code are also likely to have influenced its content.

Corporations appear to show little consensus about the ideal content of a corporate code. There are large variations in the content of codes between firms of the same country and of different countries. This observation is common to both the policies of codes and the way in which they are enforced.



### **2.2.1 The Format**

Company ethical policies come in a variety of different formats. Some policies are clearly presented as a distinctive code of ethics, and are set out as a list of injunctions and prohibitions. These describe the kind of conduct expected of company employees and the methods for ensuring compliance; reflecting a rather bureaucratic understanding of moral life.

However, many companies have ethical policies which have not been set out in a separate code of ethics. These appear in company annual reports or as extensive documents focused on a specific area of concern. They tend to describe those corporate activities which are of some benefit to the community. These documents emphasize the present nature of ethical behaviour within the company - they tend to describe what is the case, rather than to prescribe what ought to be the case. The moral implications of the structure of these company codes will be discussed at some length in Chapter Six.

### **2.2.2 The Focal Issues**

Since the range of behaviour which is covered in company codes is so diverse, dividing it into representative categories becomes difficult. What criteria should be used in a breakdown of the content of company codes? Is it better to divide code content by specific issues, or by specific stakeholder groups? Typically, those surveys which have used mainly stakeholder groups as criteria tend to have few categories; take for instance Melrose-Woodman and Kverndal (1976), who divided the content of codes into six categories: employees, consumers, the environment, the local community and society, company shareholders, and suppliers and other companies. Whereas those surveys which

divided the content of codes in terms of the particular focal issues which were mentioned tend to have many more categories; take for instance Mathews (1987), who divided the content of codes into eighteen categories, including relations with the US government, bribery, fraud, and sanctions.

The authors of these surveys tend not to have explained their choice of category. On the whole the criteria appears to be abstracted from the format of the codes themselves. Although using many categories means that the content can be analyzed in more detail, general trends can become obscured if too many are used.

Indeed, the method of categorizing the content of codes may limit the possible interpretations of their content. For example, one US survey has grouped fifteen categories into conduct on behalf of the firm and conduct against the firm (Cressey and Moore, 1983). This made it easier to point out any bias present in the content of the codes that were analyzed.

The same survey found that only a few topics were common to company codes; while fifteen areas of business activity were discussed in the codes, only three were covered in at least two-thirds of them. The most commonly cited responsibilities in US codes are: the relations with the US government, relations with customers and suppliers, and conflicts of interest. Other areas included issues such as white-collar crime, the environment, the local community, employees, customers and suppliers. This review of the content of US codes concluded that corporate executives generally do not agree on what is of ethical importance except in a few areas.

### **2.2.3 National Variations in Content**

The diversity of issues covered in company codes might reflect the huge variety of social pressures which impinge on business activities. It might also reflect the uncertainty and complexity of the moral concerns that are experienced within the business context.

Comparable observations can be made in regard to UK company codes of ethics. One early survey found that only twenty percent of codes covered responsibilities to all six stakeholder groups (Melrose-Woodman and Kverndal, 1976). Even so, there are some issues which are common to many codes such as the environment, profit, health and safety, and charitable activity.

The results of these surveys show not only the apparent disparity of the content of different codes, but also that a few common trends do exist. The codes of different societies focus on different issues (Schlegelmilch and Langlois, 1989). For example, the codes of German companies show far greater interest in technological innovation than the company codes of other countries. Also, US codes concentrate far more on relations with their own government than do the codes of European corporations. Do these cultural differences indicate that different countries experience different social issues or that the business communities of different countries react to the same issues but in different ways? On the whole company codes seem to have arisen in response to the same major issues such as environmentalism and the new consumerist movement. These issues are considered important in both Western European and North American countries. Therefore, it would seem that the national differences in the content of the codes are a reaction to the same issues, but a reaction that is somewhat dependent on their particular national character.

#### **2.2.4 Industrial Variations in Content**

The lack of consensus over the ideal content of a company code can be explained to some extent by the observation that codes are often tailored to the circumstances of a particular organization (Holt, 1980; Melrose-Woodman, 1976; Montgomery and White, 1980; Webley, 1992; Appendix B). For instance, firms in the chemicals industry tend to place greater emphasis on the problems of pollution in their codes than say do retailers or banking firms. Of course, a bank might also address environmental issues but in a rather different way.

This is clearly illustrated by those companies which have extensive documents that are focused on a specific issue. For example, the codes of firms in the mining industry always have documents dedicated to the environmental impact of their activities, sometimes up to twenty pages long (Appendix B). On the other hand, the Cooperative Bank, which may not cause much direct environmental damage, has a rather small policy statement on environmental issues, but restricts its client base on the grounds of this policy.

The nature of a corporation's business will determine to some extent the type of unethical practices that are likely to arise. These areas might be seen to be in greater need of attention in a firm's code of ethics. Certainly, a firm will be subjected to particularly strong legal and public pressures in those areas where it is most likely to be at fault. The size and industry of a firm, therefore, will determine the direction from which external pressure and regulation will come. Codes often respond to particular ethical concerns, although that does not imply that these concerns are dealt with adequately; as will be demonstrated in the following chapter.

### **2.2.5 The Influence of Organizational Politics**

Some surveys from North America have suggested that company codes are somewhat subject to bias (Benson, 1989; Brooks, 1989; Cressey and Moore, 1983; Mathews, 1987). In a comparative discussion of US and Canadian corporations Leonard Brooks (1989) has stated that,

"...it is remarkable that neither the Canadian codes.... nor the American codes ... presently deal at length with such matters as: product safety, environmental affairs, product quality, community involvement, shareholder interests." (p. 123)

So what explanation can there be for the absence of these important issues from the texts of company codes? Previously the legal environment of a society has been suggested as one of the most obvious influences on code content (Schlegelmilch and Langlois, 1989). This is by no means a comprehensive explanation for the absence of particular issues in company codes, where the language of ideology can provide the only adequate explanation for this selectivity. This sheds a political light on the origins and development of company codes of ethics. At this stage no criticism is intended, but an explanation of the influences on the content of company codes cannot ignore the role of organizational politics and managerial power.

Is it the really case that company codes are the offspring of a particular interest group within the business community? The answer to this question will bring to light an ideological basis underlying company codes of ethics. So far, only surveys of US firms have pointed out the effects of management ideology or corporate bias on the content of company codes of ethics (Cressey and Moore,

1980; Mathews, 1987). If the trend is also apparent in European firms then it would appear to be far more subtle. This is supported by the fact that European codes give priority to issues such as the environment and community involvement whereas US codes give priority to legal-political issues and conflicts of interest against the company. The ideologies underpinning company codes of ethics will be examined in greater detail in the following chapter.

### **2.2.6 Code Enforcement and Bureaucratic Cultures**

Enforcement requires that those subject to a code's rules know them and abide by them. This could require procedures for dissemination, surveillance, and sanction. But what factors have influenced the kind of procedures that are used by corporations to enforce their codes in practice? The enforcement of company codes may be steeped in many knotty moral problems, however, a thorough analysis of these will be left until the following chapters.

In fact there are few attempts to explain the factors which have influenced code enforcement. In the US, Montgomery and White (1980) have found a relationship between the size of a company and whether or not it enforced its code. Larger companies were more likely to provide more numerous and specific enforcement procedures, and were more likely to have used them recently. The authors have suggested that this is a consequence of the pressure for formal controls as organizations become larger and more differentiated.

Dissemination is the first stage of code enforcement. About two-thirds of companies have distributed their code to all employees (The Conference Board, 1992; The Opinion Research Corporation, 1980; Schlegelmilch and Houston,

1988). The remainder of codes were targeted at specific groups, particularly top management, and only a few were distributed to other stakeholders such as shareholders and customers. Dissemination is essential to ensure that a firm's employees and other stakeholders are aware of its code and its contents.

Nearly a half (44%) of company codes in North America and Europe are supplemented by ethics discussion groups (The Conference Board, 1987); these groups may provide an excellent method for code dissemination. In the UK only a few (13%) company codes are accompanied by a training course (Schlegelmilch and Langlois, 1989). This would indicate that US company codes have been disseminated more thoroughly than those of UK companies. Dissemination may be seen to be a crucial task where sanctions exist for violating the code.

US codes also cover other enforcement procedures, such as reporting channels and sanctions, more extensively than their UK counterparts. An analysis of US codes has found that the majority mentioned enforcement procedures while only a quarter discussed them in any detail (Mathews, 1987). This supports the proposition that most company codes of ethics are the product of a fashion, and that there is only minor commitment to their ethical guidelines. Likewise, the surveys of UK firms have rarely discussed their code enforcement procedures. The most extensive survey of UK codes to date has devoted a mere two pages to the discussion of their enforcement procedures (Webley, 1992). The level of commitment to company codes will be taken up again in Chapter Four.

These observations could be explained if US companies were far more committed to the values set out in their codes. Alternatively it might be explained if codes serve different purposes in different national cultures (The Conference Board, 1992). In the US, company codes can be seen to be legal

documents which support legislative or administrative compliance purposes, whereas in Europe company codes appear to represent a social compact between the company and its workers.

Despite the importance of surveillance and sanction for effective regulation the majority of company codes tend to be weak in these areas. An international survey of codes has observed that,

"Companies are most closely divided on the issue of whether a code should have penalties." (The Conference Board, 1987, p.vii)

The lack of explicit enforcement procedures might sometimes be due to the reliance on the existing bureaucracy in matters of code enforcement. Evidence for this proposition can be found in a number of surveys of UK firms (Manley, 1992; Winfield, 1990; Appendix). Indeed, existing channels such as grievance procedures, professional organizations, and trade union representatives can be harnessed for raising ethical concerns at work (Winfield, 1990).

This illustrates just how closely company codes of ethics may be interrelated with the existing company bureaucracy. Those codes which provide sanctions for a violation of their rules may be comparable with a punishment-centred bureaucracy, where the rules are used to legitimate the exercise of power through the use of sanctions (Gouldner, 1954). Codes which do not attach sanctions to their proscriptions may be more comparable to a representative bureaucracy. These rules will be obeyed only if they are considered to represent the interests of those who are subject to them. The codes which are reinforced with sanctions probably have their origins in managerial power,



whereas codes which lack sanctions but describe policies for community involvement are more likely to have their origins in other social pressures.

The above discussion clearly shows the limited imagination with which company codes are implemented. They appear to be a typical extension of the bureaucratic mentality. However, there is an alternative direction which the development of company codes might take, such as the idea of a checklist for ethical concerns.

### **2.3 Alternative Forms of Company Code**

At this point the idea of an ethics checklist for business persons will be introduced. This offers an alternative format to formal codes of ethics. There is little academic work on this idea (Nash, 1981; Henderson, 1992; Hyman et al., 1990) and only a few companies in the US have shown interest in it (specifically Texas Instruments and IBM). However, the ethics checklist could represent a different approach to the moral problems of business to that of the orthodox company codes of ethics. Rather than prescribing norms of behaviour such codes contain questions which are supposed to represent a process of sound moral reasoning.

It is quite probable that these codes are not popular, nor is their full potential explored, because they have the potential to embody a more critical form of moral reasoning than the orthodox form of code. They can be used to present questions which escape the bureaucratic mentality and encourage criticism of existing business practices and power structures.

Because such codes are by far in the minority they will not be discussed until the critique of the orthodox form of code has been presented; the potential of such codes will be explored in Part Two of this thesis.

## **Summary and Conclusions**

To conclude, it would be naive to believe that the origins of company codes of ethics reflects a sudden wave of philanthropy surging throughout the business community. Instead the origins of company codes of ethics can be found in a variety of pressures stemming from within and from without the business community.

Company codes of ethics have become far more common in the US and Europe over the last three decades, where much of the talk of business ethics can be associated with the rise of special interest groups. These groups have been formed to protest against the abuses of people and nature carried out in the name of business. Often companies with their own codes of ethics are in the public eye, operating in areas of social controversy. And the concerns of social movements such as consumerism, environmentalism, and trade unionism are all apparent in the texts of company codes of ethics.

The legal environment of a company has also been a major influence on the regulation of business practices. The range of government legislation over business has increased greatly over recent decades. Again, this legislation is clearly reflected in the content and structure of company codes. And furthermore, codes are more common and have more detailed enforcement procedures in the more litigious societies.

There are also pressures from within a company that may lead to the adoption of a code of ethics, but these only loosely mirror the external pressures. Those firms which have adopted their own codes tend to be large and situated in particular industries. Often they operate in a very delicate public relations position, and many of the companies which work in these sensitive areas have extensive documents as a testimonial to their efforts.

A convincing but pessimistic explanation for the emergence of company codes of ethics is in terms of a fashion. It is possible that a few dominant companies have set the trend for an industry and the rest have followed. This would provide us with a less than virtuous motive for the proliferation of company codes over recent years. The evolution of codes has displayed several characteristics of a fashion: they have arisen in a sudden wave, they tend to be adopted by firms which are in the public eye, and they tend to be local to particular industries and countries.

Related to this latter point is the idea that codes are, in part, an attempt to invent a corporate culture. Thus, to trace the origins of company codes is not necessarily to discover their purpose. Their origins will be invented for the contingencies of the moment. In this light it will be interesting to analyze the codes in terms of their effectiveness and their underpinning ideologies.

Generally, codes of ethics appear to reflect the bureaucratic mentality of those firms which have adopted them. They are structured as lists of formal rules and procedures, and they are most common in large firms, which are already colossal bureaucracies. Also, they tend to lie comfortably within the existing hierarchical structure, where they are sometimes further supported by existing bureaucratic procedures. The preference for formal codes over other means for representing business ethics might be grounded in this bureaucratic mentality.

And the apparent ease with which codes have been accommodated within the existing power structure of companies will give us cause for concern in the following pages. It is to this concern that I now turn.

## **CHAPTER THREE**

### **THE IDEOLOGIES UNDERLYING COMPANY**

#### **CODES OF ETHICS**

This chapter will attempt to establish the extent to which company codes represent particular ideological positions. This analysis begins by outlining a framework by which codes can be interpreted in terms of ideology. Firstly, company codes will be examined in terms of a movement towards socially responsible business practice. This is often the claim made within the text of the codes themselves. Following this the proliferation of codes will be subjected to a deeper ideological reading. On the one hand, company codes can be interpreted in terms of the social strains from which they arise. This will entail an investigation as to whether company codes give an adequate representation of the moral problems of business life, which problems they surface and which they leave suppressed. On the other hand, codes can be interpreted in terms of the various social interests which they represent. This will entail an investigation as to which dominant power groups influence the implementation of company codes of ethics. In particular, the presence of a managerial ideology and a corporate ideology will be uncovered. As a result of this investigation some recommendations will be made in an attempt to overcome the ideological problems apparent in company codes of ethics.

### **3.1 The Justification of Company Codes**

Previous work on company codes of ethics has attempted to justify them in a variety of ways. Company codes might be considered essential for the

regulation of business because of the failures of the law and the market to regulate business externally (Molander, 1987). If implemented sincerely, company codes could become an alternative to government regulation (Bowie, 1984). It has also been suggested that company codes can contribute towards the economic efficiency of industry (Arrow, 1973). However, there is some scepticism about the sincerity behind company codes. Do they really represent the public interest and, if so, how do they work? Some authors have suggested that codes are merely hollow public relations exercises (Maitland, 1985; Bowie, 1984). They may be ineffective because they are too vague or too unprofitable to be properly enforced.

A few articles have attempted to apply traditional ethical theory to justify corporate codes (L'Etang, 1992; Cederblom and Dougherty, 1990; Starr, 1983). Some argue for the superiority of one kind of ethical theory over others as a basis for company codes of ethics. A utilitarian code would stress the pursuit of happiness in business relationships, whereas a contractarian code would stress fairness and equity in business relationships. Whether one expounds one theory or another will depend on one's understanding of business and one's conception of ethics.

A common feature of this diverse range of justifications is that none of them draw on evidence provided by empirical surveys of company codes. They are speculative and any apparent scepticism remains unanswered by them. This chapter will address these speculations by using evidence drawn from several surveys of company codes in both the UK and the US. Previous surveys of UK company codes have neglected the analysis of the codes in terms of ideology, therefore, much of the evidence for this analysis is drawn from the survey described in the Appendix (Appendix B).

Initially, in the previous chapter we found that there appeared to be little consensus about the ideal content of a company code of ethics. On the surface, this indicates that there is no coherent value system common to company codes of ethics. However, the following examination will show that definite trends can be identified which underlie the content of company codes.

This study does not presume that company codes are drafted by rational beings with a perfect knowledge of morality. Such people exist only in the idea of saints and gods, not in modern business corporations. Thus, notions of power and ideology will be important in a comprehensive explanation of the interests represented by business codes of conduct. However, to begin with the notion of social responsibility will be used as a moral yardstick for analyzing company codes. This concept does not rely on a consistent set of criteria for its moral structure in the same way that the moral theories of utilitarianism or contractarianism do. It is a vague notion which defines a person's responsibility in terms of their obligations of citizenship; these change as social problems change.

### **3.2 The Social Responsibilities of Business**

The doctrine of social responsibility asserts that people have certain obligations to society by virtue of their citizenship. This idea has also been extended to particular groups of people, including business corporations. What might be the obligations of corporations and their members to the other members of society? What are the social constraints and aims which corporations should follow? Society comprises a variety of interest groups, and sometimes obligations to one group can only be fulfilled by neglecting others. The law provides us with a set of constraints which attempts to mete out justice within

society where cases of injustice arise. This law applies to the people which make up companies, but it also applies to the corporate body itself. For instance, when a corporation violates a safety regulation the law may apply a corporate fine where no single person is found to blame. But is the whole of moral responsibility to be found in the law?

On the one hand there are those who believe that moral issues should not be a special concern of business (Friedman, 1970), and on the other, there are those who believe that a legitimate business must take a broader view of its responsibilities (Carroll, 1989; Goodpaster, 1993). Friedman's argument is that the primary responsibility of business persons is to the shareholders. In Friedman's words the duty of businessmen is:

" to make as much money as possible while conforming to the basic rules of society, both those embodied in the law and those embodied in ethical custom." (1970, p.187)

This statement is not very clear since the basic rules of society are themselves vague. Are these customs those which we ought to live by or those which we actually live by? Are our present customs and prejudices unchallengeable? For example, only in recent decades has our vast consumption of the earth's resources been challenged. Should businesses change to a new ethos of energy conservation or retain their customary extravagance? Friedman's argument appears to rest on the workings of the 'invisible hand' to ensure that justice is carried out in our society. But, no evidence exists to show that this invisible hand exists, or that it would necessarily lead to a safe and just society (Almeder et al., 1983; Stone, 1975).



Contemporary society faces many serious problems which, to a large extent, have been caused by the activities of business corporations. At the very least, is it not their responsibility to help solve these problems which they helped create in the first place? To act responsibly, corporations must consider the affects of their activities on a broad range of stakeholders. Carroll (1989) has distinguished between the primary and secondary stakeholders of the corporation. Primary stakeholders are those immediately involved in corporate activities such as customers, suppliers, shareholders, and employees. Secondary stakeholders have a less direct relationship with corporate activities; they may include the local community, environmental groups, consumer groups, and society at large. Traditionally, responsibility to the primary stakeholders is considered to be the only social responsibility of business. However, if the corporation has just as great an effect on the lives of secondary stakeholders then surely these should be considered at least as important by the corporation as the primary stakeholders.

Social responsibility can be divided into four general elements: legal, economic, ethical, and discretionary (Carroll, 1989). Legal and economic responsibilities are minimal social requirements, whereas ethical and discretionary responsibilities extend beyond this minimum and tend to require positive corporate action. A major characteristic of social responsibility in this sense is that the corporation should anticipate possible ethical problems, and prevent them from arising in the first place. Thus, corporate social responsibility has two distinct aspects: firstly, it involves a very broad consideration of the interests affected by the corporation; and secondly, these interests may be represented on different levels, from compliance with legislation to genuine altruism.

A variety of social issues have become important to the idea of social responsibility since the 1980s. The following list of issues may be considered to be important to any present understanding of our social responsibilities: environmental pollution; unfair discrimination at work; consumer mistreatment; the health and safety of employees; the quality of working life; urban decay; abuses from multinational corporations particularly in the Third World; uncritical support of the arms industry (Adams et al., 1991; Chomsky, 1992).

These particular issues have become urgent social problems which are largely perpetuated by the business community. An international survey of business persons has observed that managers do recognize a number of important social problems in business (Conference Board, 1987). The most frequently mentioned issues were employee conflicts of interest, inappropriate gifts to employees, sexual harassment, unauthorized payments, affirmative action, employee privacy, and environmental issues. This shows that the business community does recognize the significance of non-economic problems.

Comparing this list of concerns with the broader list of urgent social problems it appears that those business persons who were questioned have recognized only a narrow spectrum of social responsibilities. Business persons may define their responsibilities very narrowly because they do not feel that they have the power to make a difference (Waters et al, 1986). But this is a purely psychological explanation of business morality; it does not uncover the deep ideological structures which exploit such a phenomenon.

### **3.3 The Ideology of Business Corporations**

What exactly does the term ideology mean and how could this refer to business corporations? Literally, the term ideology means the science of ideas, although it can be used in a variety of different ways. For example, Napoleon Bonaparte used this word in a pejorative sense in a speech which condemned the principles of the Enlightenment and the democratic revolution in Europe (Williams, 1976). Marx was probably the first to popularize its use and refine its content to mean a set of false ideas and beliefs about the world. Thus the Proletariat did not revolt against the Capitalists since they were deluded by ideology, they were suffering from “false consciousness”.

The anthropologist Clifford Geertz has pointed out that ethics and ideology are closely bound concepts, since ideologies tend to develop in response to the deficiencies of the traditional moral order (Geertz, 1973). Geertz has observed that,

“It is a loss of orientation that most directly gives rise to ideological activity, an inability, for lack of usable models, to comprehend the universe of civic rights and responsibilities in which one finds oneself located.” (1973, p.219)

He has distinguished between two general senses of the term (Geertz, 1973). The first sense of ideology is defined as a mask of ideas used for manipulation and suppression, this Geertz labels the interest theory of ideology. The second sense of ideology arises from conflicting social expectations - it is present as both the symptom and remedy for these strains - this Geertz labels the strain theory of ideology. The strain theory can give a far more comprehensive

account of the social dislocations which characterize an ideology, though the two theories are not incompatible.

Managers of business organizations can be criticized for projecting an ideology inconsistent with changing social values (Anthony, 1986; Storey, 1983; Petit, 1967). Business persons themselves are commonly troubled by value conflicts at work. In 1976, a large scale survey of Harvard Business Review readers set out to determine the ethical climate of their industry (Brenner and Molander, 1977). Two-thirds of the one-thousand-two-hundred and twenty-seven respondents reported that unethical practices had become generally accepted in their industry. Despite this, the majority of the respondents believed that they were more ethical than the average executive. This observation about business ethics can be explained by ideology in terms of both a strain theory and an interest theory.

### **3.3.1 Strain Theory**

Many social strains impinge directly on the life of business persons, who may experience these in terms of uncertainty and stress (Waters, Bird and Chant, 1986). The strain theory suggests that an ideology becomes manifest through the conflicting expectations that are experienced by the members of an institution or society; this is the symptomatic aspect of an ideology. The ideological framework also operates through the mechanisms which maintain and dispose of these conflicts.

The concept of social responsibility can itself be interpreted in terms of a strain theory. As explained earlier there is a degree of controversy over the social responsibilities of business. Some argue that business fulfils its social

responsibilities in terms of economic and legal criteria (Friedman, 1970). While others argue that the business community must go beyond these minimal requirements to act in a truly socially responsible manner (Carroll, 1989). This debate is not confined solely to the academic arena and is equally apparent from the diverse accounts of social responsibilities which are given in company codes of ethics.

On one level this debate can be explained because diverse social interests place conflicting demands on business. Alternatively, these social strains might arise from inadequacies at the very core of modern liberal society, and this is the interpretation offered by social critics such as Alasdair MacIntyre (1985, 1990) and Michel Foucault (1977, 1984). Both of these critics have focused their attention on the disintegration of moral communities in modern liberal society, although neither of them have characterized this simply in terms of class struggle.

MacIntyre (1985) has observed that liberal societies have not provided their citizens with an adequate moral framework through which to understand their behaviour. It is not simply the case that people today are refusing to resolve their moral conflicts in a rational manner, but that they have no basis upon which to do so. While some social interest groups make appeal to their rights, others, businesses for example, make appeal to the social utility of their activities. Any agreement between these parties must be arbitrary because in the absence of a rational common ground for moral debate, power must inevitably be resorted to in the case of action. MacIntyre, further suggests that managers have been instrumental in maintaining this state of affairs. Under the auspices of management, reason has become instrumentalized, and practical reason has become almost impossible. The management theorists Likert (1961) and March and Simon (1958) can be used to illustrate this point (MacIntyre,

1985). In Likert's work the managers are presumed to need to influence the motives of their subordinates. March and Simon explain how the bureaucrat must ensure that the subordinates argue from premises which will produce agreement with the bureaucrat's prior conclusions. (Refer to Chapter Nine for a more extensive discussion of the ethical shortcomings of liberalism and the role of codes in this.)

Unlike MacIntyre, Foucault did not critique the ideology of liberal society as one great mechanism, but approached each of its powerful institutions one at a time (Foucault, 1977; 1984). In his work he exposes the dangers which certain forms of moral regulation may hold for the subjects of their control; in particular he engaged in devastating critiques of prisons, mental hospitals, and governments. He attempted to show how these institutions are established so as to mould their subjects into normal, docile individuals. Thus people are taught to become passive interpreters of the nature of their circumstances; they become dependent upon the interpretive skills of professionals and incapable of making their own ethical choices. It was Foucault's project to challenge the necessity of these authoritarian institutions, and to expose the truths upon which their spurious authority is grounded. The structure and content of company codes will be examined for the presence of these rationalities and their moral dangers. Before this, the interest theory of ideology will be discussed with regard to modern business practice.

### **3.3.2 Interest Theory**

Business can be characterized as the struggle for power by various interest groups. This need not involve open conflict, though sometimes conflict becomes apparent, such as the rise of the labour unions in response to the

power of capitalists and managers. Indeed, ideology may be considered more effective when the power conflicts remain hidden (Berger and Luckmann, 1967)

Berger and Luckmann (1967) have suggested that once a doctrine has been adopted by a particular interest group, "it is modified in accordance with the interests it must now legitimate." (p.14). When one talks in terms of ideology one recognizes the influence and effects of social power relations. This is likely to be an important factor in the development of a social control mechanism such as a corporate code of ethics.

Ideology as social conflict can be seen at work in two ways in business organizations. In the first case, the business values of a corporation can protect that corporation against outside interest groups. In the second case, a management ideology can protect the interests of management as the dominant power group against other interests groups in society.

Burnham (1941) was the first to present a convincing argument that management had, in effect, become the ruling class of our society. (He asserted this of communist Russia too.) He took the view that those who have control of the means of production in a society are its ruling class. Now, in our society there has been a separation of ownership from control of the means of production. Burnham demonstrated that the dominant corporations in our society are no longer under the control of their legal owners. Rather they are under the control of management, where the shareholder owners generally do not show much interest in the running of their corporations. Thus, the interests of the management class will be served and its values extended throughout society. Of course, it must be said that it is unlikely that individual managers consciously pursue managerial interests but rather their own interests.

However, this does not deny the existence of managerialism because managerialism arises from general trends common to management as a whole.

The myth of management rests on their overemphasis of the need for top-down control and discipline in organizations (Anthony, 1986; MacIntyre, 1985). Management claims expertise and a rationally grounded authority in this area in order to maintain their status in organizations. However, these claims may rest on an illusion,

" the whole philosophical foundation upon which management's claims [for authority, control expertise over others] are built are themselves revealed to be shifting and uncertain, that management is engaged in a charade of pseudo-science and mock-morality in order to disguise itself in an authority to which it can lay no real claim and which it cannot exercise" (Anthony, 1986, p.169)

The attempts of managers to form a professional body (e.g. Institute of Personnel Management, British Institute of Management) can be interpreted as one of the symptoms of the propagation of these myths. One of the distinguishing characteristics of a profession is that it claims a great technical knowledge in some area of activity. By becoming a profession management claims such knowledge for itself, further concealing its moral foundations (Anthony, 1986).

Professional organizations have themselves been criticized for protecting their own interests rather than the public interest. A content analysis of professional codes has found that while the public interest may be represented within professional codes this tends to be a subordinate consideration to the



profession's own interests (Kultgen, 1988). This is achieved in professional codes because,

"...vagueness in provisions relating to service allows members of a profession to avoid difficult and dangerous responsibilities, while the profession can point to the provisions as proof of its dedication to the public good. It is significant that provisions become more specific, clear, numerous, and hence more effective, as they pertain to behaviour that promotes the interest of the profession." (Kultgen, 1988, p.415)

In the following discussion a similar point will be argued concerning the implementation of corporate codes of ethics. Now a detailed analysis of company codes can be carried out in terms of these different accounts of ideology: social responsibility, strain theory, and interest theory.

### **3.4 Corporate Codes as a Reflection of Social Responsibility**

Can a company code of ethics be used to generate or regulate socially responsible corporations? Companies which do not favour the adoption of a code tend to hold a very narrow view of their social responsibilities (Melrose-Woodman and Kverndal, 1976). However, once the door to deeper moral concern is opened within an organization it may never be shut; that is, if it is indeed true that the first step in solving a problem is recognizing that it exists.

As people first become sensitive to moral problems at their work they may increasingly feel the need for a positive response. This reaction has been observed in many companies which have adopted open door policies (Winfield,

1990). Managers in these companies tend to believe that they could not do enough to address the ethical concerns of their employees, whereas those who worked in companies without open door policies saw no ethical concerns in the first place. Similarly, there is some evidence to suggest that corporate codes are also a step in the direction of greater ethical awareness. For instance, companies with codes of ethics are far more likely to have forums for the discussion of ethical concerns than those without codes (Conference Board, 1987). In the UK, companies with codes had far more processes to deal with ethical matters than those without codes (Schlegelmilch and Houston, 1988). Apparently those corporations with codes are more likely than those without a code to be concerned with ethical matters in other ways too. Therefore, the presence of a corporate code appears to show a greater concern over ethical matters than the absence of a code.

### **3.4.1 The Consideration of Company Stakeholders**

In what ways do corporate codes reflect an ethic of social responsibility? To begin with, they explicitly introduce wider consideration of stakeholders' interests into corporate policy. Traditionally, corporations have tended to define their official obligations in purely economic terms involving only a narrow range of stakeholders, such as the firm's shareholders, suppliers, customers and employees. Company codes of ethics often divide the stakeholders' interests into six much broader categories of responsibility: employees, consumers, the environment, the local community and society, shareholders, suppliers and other companies.

The environment, the local community and society can be classed as secondary stakeholders, to use Carroll's terminology. Traditionally, these stakeholders are

not the concern of the business community. However, they are discussed more often in company codes of ethics than are the primary stakeholders, such as the shareholders, suppliers and other companies. Company codes of ethics represent a wider range of stakeholders' interests than traditional company policy. This does not negate the possibility of a management ideology in codes since management's interests are no more reflected by the interests of the shareholders (primary stakeholders) than they are by the interests of the local community (secondary stakeholders).

Now the extent to which corporate codes fulfil the responsibilities to these stakeholders can be examined. This will be done using Carroll's (1989) four aspects of social responsibility which are: legal, economic, ethical, and discretionary.

### **3.4.2 Legal Obligations**

Surveys in the US have found that company codes are firmly grounded in a legal ethos; company codes are mainly the result of the "FCPA ethos" [Foreign Corrupt Practices Act] of the US in the mid-seventies (Holt, 1980). Legal responsibility is mentioned as the basis of the US codes (91%) even more often than ethical responsibility (88%) (Mathews, 1987).

Codes tend to imitate criminal law in both the issues they focus on and in their use of enforcement procedures. This is supported by the fact that legal action is the second most discussed penalty in US codes after dismissal (Mathews, 1987). Sanderson and Varner (1984) have suggested that since so much of the content of US corporate codes of ethics relates to complying with federal laws they would be more appropriately titled "the Legal Environment of ABC

Company" (p.29). About two-thirds of the rules in US corporate codes are clearly derived from federal legislation, where the corporation's legal environment has been a dominant influence on the content of their codes. Following from this, it is likely that corporate codes aptly represent their legal responsibilities.

The obsession with government legislation in US corporate codes is not so apparent in European codes. The codes of European firms are more concerned with environmental problems and community relations than with legal/political issues (Schlegelmilch and Langlois, 1989). At the same time the influence of government legislation can be clearly recognized in the content of codes of European and UK firms (Appendix B; Schlegelmilch and Langlois, 1989; Melrose-Woodman and Kverndal, 1976). Specific legislation can be directly linked to the content of US company codes such as the Foreign Corrupt Practices Act of 1977 and the Sherman Antitrust Laws. In the UK, the Health and Safety at Work Act of 1974, the Equal Pay Act of 1970, and the Sex Discrimination Act of 1975 have all been linked to the content of corporate codes (Melrose-Woodman and Kverndal, 1976). However, few laws are explicitly mentioned in UK codes, and only five specific Acts were cited in the thirty-three codes which were analyzed for the purposes of this thesis (Appendix B). Among the laws cited in these codes are the Health and Safety Act (1974), the Employment Protection Act (1978), the Patent Act (1977), and the Companies Act (1985).

From the legal perspective company codes can be seen as a reaction to the proliferation of legislation affecting corporations. In this way codes may increase the effectiveness of the law since its rulings are beginning to be internalized into the corporation's own procedures. The emphasis on legal norms and values in the texts of corporate codes suggests that unethical

behaviour is being defined in the same way as criminal behaviour. This would appear to be a very conservative basis for codes of ethics since in a liberal democracy the law attempts to legislate for only a minimum of ethical customs and values (Devlin, 1965).

In terms of social responsibility, the law has one major deficiency since it often does not come into effect until a situation has already grown out of hand (Stone, 1975). A law simply reacts to problems that have already developed; it does not attempt to prevent these problems from arising in the first place. Therefore, corporate codes of conduct might provide a way of compensating for this deficiency by going beyond the prescriptions of the law.

Of course, a corporation may be deemed not to have the moral authority to legislate beyond the minimum parameters laid down in the law. If this stance is taken then corporate codes may only restate the prescriptions already present in the law. People must remain free to pursue their own conception of the good life. On the other hand, an opposing view is held by those professional organizations which set standards for their members which go beyond the letter of the law. The justification for this is that professional codes of ethics ensure that above all else the professional service provides for the public good.

The same may be said of corporate codes of conduct which may also prescribe beyond the limits of the law. This happens in a very rudimentary way in cases where company's have tailored their code to their own particular circumstances. For example, both the size of the company and the industry to which it belongs influence the content of corporate codes. Due to the specific knowledge that a corporation has of its own affairs it is in an excellent position to anticipate the unethical situations that are likely to arise in its daily affairs. Thus, an analogy may be made between professional organizations and

corporations because both have access to specialized knowledge of their own operations which may have important social consequences. This may provide a limited justification for a firm going beyond the letter of the law in the prescriptions of its code of ethics. If this power is to be granted to a corporation then it must be exercised with great caution and with respect to the interests of the various groups of people who may be affected by it. The following analysis of the ideology of codes will highlight some grave reservations in regard to this matter.

### **3.4.3 Economic Obligations**

Economic responsibilities are also an essential part of corporate social responsibility. Like the law, these are a minimal social requirement. It appears that codes place a great deal of emphasis on these responsibilities. US codes draw heavily on business rationales for their justification (96%) even more frequently than they draw on legal/political rationales (87%) (Cressey and Moore, 1983).

The most common view reflected in UK company codes of ethics is that making profits is the best way to fulfil any other social responsibilities (Appendix B). Another common position expressed in codes is that business benefits can be reaped by fulfilling certain social responsibilities. An economic rationale is the dominant foundation for most company codes. For example, *The Ethical Standards* of Smith and Nephew provides a clear statement of economic responsibility,

"The Group's objective is to use its resources with maximum efficiency in the production and marketing of goods and services

which customers require. In doing so, it is Smith and Nephew's aim to provide goods and services of good quality and to have proper regard to its responsibilities to employees, customers, suppliers, shareholders, the community, and the environment."

It is significant that shareholder interests have relatively little coverage in codes compared with other interest groups such as the local community, and the environment. They are one of the least mentioned stakeholders in UK company codes of ethics (Appendix B; Webley, 1992; Schlegelmilch and Houston, 1988; Melrose-Woodman and Kverndal, 1976). This is also apparent in US company codes. Furthermore, in surveys of managerial attitudes, economic advantages tend not to be mentioned as one of the benefits of codes, and increased productivity is hardly ever given as an expected benefit of corporate codes (The Opinion Research Corporation, 1980). Thus the economic responsibilities outlined in corporate codes do not reflect a traditional ethic of capitalism due to their lack of attention to shareholder interests and productivity. However, since business rationales are used so often in the texts of corporate codes of ethics it seems that economics and the survival of the firm still provide the ultimate justification for a code's existence.

#### **3.4.4 Ethical and Discretionary Obligations**

The minimal requirements for social responsibility appear to be covered extensively in corporate codes, but do these codes also cover areas which Carroll (1989) has termed the ethical and discretionary social responsibilities? It is not obvious why ethical and discretionary obligations appear in company codes. They might be expressions of its philanthropic owners or directors, or

alternatively, they might express company policy regarding operations which impinge on areas of social controversy.

The codes of British companies sometimes go beyond minimum social requirements. An early survey of UK company codes reported that,

"While legislation may have been the initial spur, a study of codes shows that in most cases companies have embodied in them not merely the letter but also the spirit of the law."  
(Melrose-Woodman and Kverndal, 1976, p.47)

However, whilst they use the law as a basis for their content, codes mainly cover issues which are related to the company's own economic advantage (Appendix; Melrose-Woodman and Kverndal, 1976). This trend has also been observed in US companies (Cressey and Moore, 1983; Mathews, 1987; Sanderson and Varner, 1984). For example, two of the largest book retailers in the UK state an ethical concern for literacy in society (WHSmith, John Menzies). Similarly, mining companies tend to have the longest statements of social responsibility concerning the environment (Appendix B).

There are some problems in determining the extent to which codes go beyond minimal economic and legal requirements because ethical and discretionary prescriptions cannot easily be placed into a distinct category. In the texts of codes ethical concerns are divided into either specific social issues or stakeholder interests. But these categories do not reflect whether the rule itself is a legal minimum or whether it reaches further than this.

Here are some obvious cases where the UK companies do go beyond the letter of the law (Appendix B). Forty-seven percent of companies with ethical



policies make charitable donations to society or the local community. Thirty-seven percent of company codes set out rules guiding the political activities of the company or its employees. Normally this is simply to state that the company does not make contributions to any political party, however, some codes go further than this by detailing the suitable circumstances for the political activities of its employees. Thirty-three percent of codes state that company employees must act with honesty and integrity. Seventeen-percent of codes state what employees should do in cases of a conflict of interest with the company. Most companies have environmental policies, many of which go beyond the letter of the law. This is sometimes achieved by a statement of co-operation with the regulatory authorities, and an attempt to anticipate new legislation. For example, Mobil Oil's code emphasizes the company's co-operation with Her Majesty's Inspectorate of Pollution and the National Rivers Association.

A number of company codes extend beyond the law by accepting the requirements of voluntary codes of conduct. Several codes of conduct in a sample of thirty-three referred to international codes of conduct; for example, the OECD Declaration and Guidelines for International Investment and Multinational Enterprises, and the ILO Tripartite Declaration of Principles. Two codes referred to the EC Code of Conduct for Business in South Africa. Three companies referred to the work of the Cadbury Committee on the moral behaviour of directors. One code mentions the company's accord with the CBI's Code of Practice on Prompt Payment.

The following case shows just how a corporate code can extend beyond the legal minimum. The Employment Protection Act of 1978 provides employees with rights against unfair dismissal in the UK; this is the current minimal social requirement that corporations must meet. However, some companies have

elaborated on this basic right in the texts of their codes of ethics; for example, the *Code of Practice For Members of the Scott Bader Company Ltd.* states that:

"We are agreed that in the event of a down-turn in trade we will share all of the remaining work rather than expect any of our fellow members to be deprived of employment, even if this requires a reduction in earnings by all." (Melrose-Woodman and Kverndal, 1976, p.31)

This prescription goes far beyond any basic economic or legal requirement. It shows that the company values its employees at least as much as any of its other stakeholders. One could also see it as addressing the wider social problem of unemployment. It is interesting to discover that the code of the Scott Bader Company is based on the philosophical and religious principles of its founder. Melrose-Woodman and Kverndal (1976) found two other companies out of forty whose codes had similar origins. In such cases the code is more likely to be based on metaphysical principles which transcend legal and economic norms.

However, the majority of firms are grounded in a secular ideology and tend to stick to the minimal social requirements of legal and economic responsibilities. It may be that they do not have the necessary belief in humanist values to extend beyond this minimal level, nevertheless, it is quite possible for these firms to elaborate their responsibilities further and a handful of codes have demonstrated this level of commitment.

### **3.5 Corporate Codes as a Reflection of Ideology**

A straightforward analysis of the social responsibilities mentioned in codes neglects many of the moral problems of which they are indicative. This section will argue that a managerial and company bias is present in the formulation and enforcement of company codes of ethics. Also, moral problems may exist which do not fall within a conflict framework of ideology. These come to light under a strain interpretation of company codes of ethics.

#### **3.5.1 The Strain Interpretation**

Do company codes reflect a particular ideology, and if so, what are the implications of this? In terms of a strain theory, company codes and the ideas that they represent are the outcome of the diverse social pressures which impinge on our everyday working lives. Company codes of ethics can thus be interpreted as an attempt to reconcile these conflicting social expectations. Ostensibly, they are an attempt by the business community to absorb new social values.

In the texts of company codes there is a recognition that companies have more than a simple economic relationship with their stakeholders. This begins where legal obligations are stated. We have already seen that codes often highlight the legal requirements which a company must meet (for the UK refer to the Appendix, and Melrose-Woodman and Kverndal, 1976; for the US refer to Mathews, 1987, and Sanderson and Varner, 1984). This gesture appears to be an open acceptance by the company that in some cases its priorities must be subjugated to the interests of society as a whole. However, a deeper

examination of the rationale underlying these codes' prescriptions may indicate otherwise.

In the thirty-three codes examined for this thesis various accounts are given of a company's moral priorities (Appendix B). The most common view reflected in codes is that making profits is the best way to fulfil any other social responsibilities; this is much in accordance with Friedman's free market doctrine (Friedman, 1962). Most other codes stated that business benefits can be reaped by fulfilling a narrow range of social responsibilities. A common assumption which underlies the vast majority of company codes is that all ends will be achieved in pursuit of the one end, that is money. There is no hint that these ends can conflict sometimes; the economic rationale glosses over the moral conflict which is the very essence of business ethics. In general all the codes tended to leave their priorities unclear. Whatever the opening remarks in these ethical policies, the economic rationale is pervasive.

Even the codes dedicated to ethical standards can be subjected to this criticism. *The Harrisons and Crosfields Philosophy* formulates its objectives in terms of operational efficiency and growth in earnings. *The Ethical Standards* of Smith and Nephew state that,

"The Group's objective is to use its resources with maximum efficiency in the production and marketing of goods and services which customers require. In doing so, it is Smith and Nephew's aim to provide goods and services of good quality and to have proper regard to its responsibilities to employees, customers, suppliers, shareholders, the community, and the environment."

One company (Mars) defines its social responsibility in terms of quality goods for customers, loyalty to suppliers, well paid employees, and prosperity in communities as a fortunate side effect of the company's own growth. This is nothing more than prudential business sense and requires no explicit ethical policies. The economic end is taken to be all prevailing instead of one to be considered among many.

One cynical respondent to the questionnaire survey, which was carried out for the present thesis, stated that in his company,

"There is an aspiration towards 'shared values' reflecting a feeling that we are or should be a more homogenous group of businesses..... and that the coherence of the group as a whole is best promoted if we develop more of a common 'culture'. Thus values are I think seen in an instrumental sense (i.e. a means towards securing business success as conventionally understood) rather than in terms of an overtly 'ethical' content."

(Appendix B)

This respondent demonstrated a particularly cynical view of his company. In this reply, the words "shared values", "synergy", "culture", "values", and "ethical" were all placed within quotation marks. This appears to indicate that this person has recognized the use of such words as fashionable - only a mask. Values and culture are manipulated for business success rather than for the common good, fairness or justice. Furthermore, this respondent wished to remain anonymous, which suggests that critical ethical views are unacceptable within that person's organization. This is in spite of the fact that this company has formal policies which explicitly address ethical concerns, and its annual

shareholder report contains ethical policies relating to environmental issues, employees and the local community.

The extent to which company interests are subjugated to other social interests is therefore somewhat open to question (Hosmer, 1987). Company codes tend to be unclear concerning those interests to which the company should give priority. Furthermore, they tend to be unclear concerning the cases where other social values should prevail over the economic interests of the firm. Thus, they would appear to be of little help to the business person who is confronted with an ethical dilemma. This holds true for both US and UK codes (Appendix B; Hosmer, 1987).

However, to state that codes do not act as a guide for moral behaviour would not be entirely true. This becomes clear from an analysis of the way employee relations are represented within the texts of many company codes. For instance, the honesty and integrity of the business person are exhorted in many codes. At the same time, these codes could actually present a danger to the ethical life of business persons, by linking their moral interpretations to particular power relations within the organization. These social strains within business will be exposed by examining the evidence concerning the enforcement of codes.

In the present survey (Appendix), very little evidence was supplied concerning code enforcement. Indeed, other surveys of UK company codes have similarly found little information concerning code enforcement (Webley, 1992, 1988; Schlegelmilch and Houston, 1988; Melrose-Woodman and Kverndal, 1976). No evidence of disciplinary action was given by any company where a person had been officially disciplined for transgressing the code. All those companies which claimed to enforce their code state that this is the responsibility of

management. Few codes specify formal enforcement procedures beyond this, although there are a few exceptions such as the codes of Mobil Oil, ESSO and Cargill.

An employee is typically referred to their superior within the company hierarchy if they encounter a moral problem. Most companies responding to a survey by Winfield (1990) reported that employees with an ethical dilemma should first go to their line manager. However, many also recognized that external "experts" may be referred to in special cases, such as a member of the legal profession or the clergy. A few even recognized that the advice of 'a friend' might reasonably be sought. This illustrates that managers tend to be considered as moral experts within the business community, an observation which is entirely confirmed by this examination of company codes of ethics. Not only are managers the dominant interest group concerned with formulating and enforcing company codes, they are even represented as moral authorities within the text of these codes. Here are some examples from company codes of ethics of how managers quite reasonably assume this position:

"In cases of doubt, individuals should refer to their superior for guidance." (*Ethical Standards: A Guide for Directors and Managers*, Smith and Nephew)

"Those to whom this letter is addressed should, if they discover any breach of it by a subordinate, report it immediately to the IMI director concerned and take action to prevent any recurrence." (*IMI Policy to Combat Extortion and Bribery*)

"They [employees] must refer to their managers in case of doubt and take advice from legal or other advisers in the appropriate area." (*Reuter International General Order*)

"any officer, director, or employee should report immediately in writing to his or her supervisor and facts which might involve the slightest appearance or possibility of a conflict of interest.... The supervisor in turn should forward the report through regular channels to management, who will arrange for such review." (Mobil Oil Company Ltd, *Statement of Policy on Conflicts of Interest*)

The use of the word superior in the first quote here allows for a telling ambiguity. Is this superiority a bureaucratic one or a moral one? And if it is merely bureaucratic, then what is the justification for this superior in guiding the moral choice of any subordinate? This ambiguity in company codes of ethics further extends managerial influence over the moral life of the organization and its members.

It can be argued that the management profession has been primarily responsible for the repression of moral thinking within business organizations (MacIntyre, 1985). MacIntyre has pointed out that it is the job of management to interpret moral problems in terms of given company ends; it is not their job to question these ends. Indeed, this is implicit within the hierarchical structure of organizations (Ladd, 1970). Moreover, it is the manager's job to apply this same rationality to everyone else within their organization. No one should question the ends of organizational activities, but all should pursue these given ends efficiently and without a fuss. The ends of the organization's members must always be subordinated to the ends of the organization.



The function of the manager as set out in company codes is to ensure that all moral problems in the company go through this process of rationalization. Thus, it appears that the very purpose of company codes of ethics is to prevent company employees from engaging in moral reasoning at all. This criticism aims at the heart of business ethics and will be returned to in the final chapter of this thesis.

The process of reporting ethical concerns within a company is one that can undermine the moral autonomy of those subject to it. By analyzing the way moral concerns circulate within an institution the disclosure of moral concerns will be shown to be fraught with moral dangers. The work of Foucault is extremely revealing in this regard since it concerns itself with this type of moral self-disclosure. Unlike MacIntyre's analysis, Foucault's approach focuses on the processes of self-disclosure without assuming that the organization has its own goals under which the goals of its members are subsumed.

According to Foucault (1978), the ritual of confession is central to understanding the ethics of modern societies. Relating one's moral problems to one's superior in a hierarchy, as set out in many company codes, is directly analogous with the confessional ritual. This ritual is not simply a religious ceremony, but has become disseminated throughout all sorts of social relationships, including those between children and parents, patients and psychoanalysts, delinquents and experts. Equally, the relationship between worker and manager might also be fruitfully examined using this analogy.

The confessional form of discourse is peculiar since the speaking subject is also the subject of the discourse. Foucault has identified the confessional as a

framework within which the moral responsibility of the individual is absorbed.

In his own words, the confession is,

"a ritual that unfolds within a power relationship, for one does not confess without the presence (or virtual presence) of a partner who is not simply the interlocutor but the authority who requires the confession, prescribes and appreciates it, and intervenes in order to judge, punish, forgive, console, and reconcile.... it unburdens him of his wrongs, liberates him and promises him salvation." (1978, p.61-62)

The confessor is the passive subject of his own confession. In this relationship the authority figure plays a hermeneutic role and once the moral problem has been confessed it is modified through the interpretive powers of the authority. From an analysis of company codes of ethics it seems that managers are taking up this authoritative role within their companies. Company codes commonly recommend that all moral problems must pass through them, most especially in cases of doubt. That is not to suggest that the interests of managers are in blatant conflict with their subordinates since it is clear that the managers themselves must also confess. Both the superior and the subordinate are subject to the rationality of the confession, under which they willingly (though unwittingly?) forfeit their moral choice.

Where there is a concern for moral standards in business it is common practice that employees are recommended to first seek the advice of managers when they face some moral concern (Winfield, 1990). Only in exceptional circumstances are people recommended to seek advice from outside the company. Perhaps it is telling that the clergy and therapists are also

recommended as moral advisers in this survey, though one's friends and family are presented in only a diminutive light.

Advocates of company codes of ethics tend to be ignorant of this kind of moral trap. For example, one of the most extensive surveys of company codes of ethics in Britain openly recommends that,

"... disclosure decreases conflicts of interest because employees can ask superiors or others to resolve ethical problems."

(Manly, 1992, p.79)

Here the company hierarchy is a mechanism through which employees can happily relieve themselves of their moral burdens. The company code falls neatly into this scheme of things as a substitute for the company superior, whose interpretive powers must be sought in cases of doubt.

Company codes rarely appeal to their subjects' moral sensitivity or relate to them as autonomous agents capable of their own independent deliberations over their ethical concerns. The issues raised in codes tend to derive from legal concerns and popular social movements, which require little moral thought, merely obedience to the law or fashion.

Now company codes will be examined in terms of an interest theory of ideology. This focuses mainly on the enforcement mechanisms of codes. Here the moral dangers surrounding the emergence of company codes of ethics are presented in terms of the dominance of particular power groups within society.

### **3.5.2 The Interest Interpretation**

This section answers two questions raised earlier in this chapter: Is it the case that company codes of ethics represent the interests of a dominant power group in society, and if so what are the moral implications of this? Firstly company codes will be examined for the presence of a managerial ideology.

Corporate codes are the offspring of a particular interest group - top management. In the survey for this thesis no company described a formulation process where all its employees were represented. A common feature throughout code formulation is the predominance of top management.

The survey evidence shows that UK company codes are almost always initiated, designed and enforced by the top management of a company (Appendix B). The present survey found that only three out of ten responding companies circulate their code to all their employees. Another survey of UK companies found that sixty percent of codes are circulated to all company employees (Schlegelmilch and Houston, 1988). (This observation was from a sample of thirty companies compared with only ten from the current survey). In all cases the company management are given copies of the code. In a fifth of cases codes are restricted to the top management, but then, codes are often aimed at guiding the behaviour of management and not line staff. For example, the environmental concerns most frequently espoused in codes are aimed at guiding policy decisions which are taken only by management.

The same trend is apparent in the US. About a third of corporate codes are circulated only to top management (Opinion Research Corporation, 1980; Conference Board, 1987, 1992). On the whole, other interest groups are left out of the formulation and implementation processes. Neither union nor

government endorsement has been sought for the vast majority of codes. Furthermore, the shareholders are never responsible for initiating a code of ethics in their own company (Opinion Research Corporation, 1980).

A deeper problem presents itself even when different interest groups are involved in code implementation because including token representation from other interest groups will not necessarily ensure that their interests will be represented fairly. A dominant interest group can coopt elements from other interest groups in order to strengthen its own power base (Selznick, 1948). Thus, if top management allows any other interest groups into the code implementation process this may be to suppress the threat of any challenge to the authority of the dominant group.

This indicates that a large proportion of so-called corporate codes of ethics are in effect management codes of ethics. If the claim is accurate, that management codes are an attempt to further disseminate a managerial ideology then this does not bode well for corporate codes, for what can be said of management codes can thus be said of a large proportion of corporate codes. There is much evidence from the formulation and enforcement of company codes that indicates the presence of a managerial ideology.

In the previous section it was shown that an economic rationale is pervasive throughout the texts of company codes of ethics. However, the low level of discussion of shareholder interests in company codes suggests that this economic rationale does not derive from a sense of obligation to the shareholder owners of corporations, rather, it can be seen as stemming from a managerial ideology. This ideology is built on a mask of the traditional norms of capitalism where the owner of property was master of that property; however, now it is management who controls property and capital without

need for the owners' sanction (Burnham, 1941). A managerial bias has also been identified in the enforcement procedures of US company codes,

" decisions concerning a firm's ethical standards are the preserve of those holding authoritative positions within that firm. In our judgment, in fact, 106 of the 119 codes are either paternalistic or authoritarian in tone, telling employees in effect that ethical expertise is correlated positively with salary and status."  
(Cressey and Moore, 1983, p.63)

Furthermore, surveillance procedures in these codes were emphasized more than twice as frequently than personal integrity. Here it seems appropriate to raise an ancient ethical question, who shall guard the guardians? Certainly, there is evidence to suggest that subordinates see the behaviour of their official superiors as a primary guide as to what is acceptable behaviour in a firm whereas formal policies are only a secondary guide (Brenner and Molander, 1977).

There appears to be a degree of contradiction in the processes of code enforcement. Codes rarely appeal to the integrity of top management while, at the same time, the enforcement of codes is centred at the top of the organization. By what authority do top management pose as the moral guardians of the organization when they cannot be considered to be anymore expert in moral matters than the next person? There is no moral reason why only top management should compose and enforce a code. Surely, they are no more worthy than other members of the corporation? This contradiction is rooted in a managerial ideology. The following list is a summary of the reasons which Cressey and Moore (1983) have given in explanation for the managerial bias in US company codes:

- 1) No credence would be given to managers who set themselves up as moral role models.
- 2) The corporate executive is a manager not a (moral) entrepreneur.
- 3) The corporation is already embedded in a strong legal environment with associated legalistic attitudes.
- 4) The social culture encourages pronounced and hard anti-criminal gestures.
- 5) Traditional deterrence theory is easier to administer than a role model approach and it protects the reputation of top management.
- 6) It insulates top management from the legal violations of their subordinates.

This explanation contains themes from both the strain and interest theories of ideology. Company codes slip easily into the existing power relations of the corporation and the interests of management as a dominant power group are protected. There is also the danger that this may impoverish the moral thinking within an organization by removing the burden of moral inquiry from those who are subject to the code.

There is plenty of evidence for the existence of a corporate bias in the content of these ethical codes. This can be illustrated in two ways: the way in which ethical issues are resolved in the texts of codes, and the systematic neglect of particular issues. An extensive survey of US corporate codes has observed that,

"Overall, the content analysis of the codes of conduct/ethics revealed that corporations are more concerned (in the codes) with conduct against the firm or specific illegal activity - such as bribery - on behalf of the firm than with product safety and quality, environmental affairs, and other issues directly related to consumers and the general public." (Mathews, 1987, p. 117)

US and Canadian corporate codes have been found to be deficient in areas such as environmental affairs, product quality, product safety, community involvement, and shareholder interests (Brooks, 1989). Such deficiencies suggest that a corporate and a managerial ideology may underlie company codes of ethics.

The content of UK company codes does not appear to be so clearly deficient in these areas; for instance, environmental affairs are the most frequently mentioned issue in these codes (Appendix B; Melrose-Woodman and Kverndal, 1976). Also, health and safety is one of the most frequently discussed issues in UK company codes, far more than specific legal issues such as bribery. That is not to say that a corporate bias is entirely absent in these UK codes, as can be clearly demonstrated by an analysis of the way specific issues are resolved within these texts.

The way in which conflicts of interests are explained in codes also highlights a movement towards the suppression of moral thinking within companies. In relation to conflicts of interest, codes almost always state that the employee must decide in favour of the company. (Clear instances of this policy can be found in the codes of Reuters, IMI Mobil Oil, GEC-Marconi, ECC, Costain Group, Smith and Nephew). For example, another company code states that,



"Company employees should act in the best interests of the Company to the exclusion of considerations of personal preference or advantage." (Costain Group, Appendix B)

This prescription simply replaces an egoist morality with a Company-centred morality. Requiring one always to settle in favour of company interests is requiring one to form a systematically distorted moral point of view. The moral point of view can only be developed through the equal consideration of all relevant interests and the consideration of what might make an interest relevant (Rawls, 1971; Hare, 1981). A few rare exceptions to this do exist such as the Scott-Bader Company and Abbey National plc which both have policies explicitly stating that company interests should not always be placed above the interests of others (Manley, 1992).

A corporate bias can also be detected in the texts of company codes concerning specific issues, such as the confidentiality of information. Information can be held by firms as a competitive advantage and some companies provide their employees with guidelines on how information is to be controlled and safeguarded within their firm in their code of ethics. Indeed, confidentiality was sometimes (though not often) given as a reason for providing no further information to the survey of UK companies which was carried out for the purposes of this thesis. Nestle stated that there was "no pertinent literature for 3<sup>rd</sup> party use", and Saatchi and Saatchi appealed directly to the "confidential nature of our business." There appears to be some inconsistencies in these explanations. Surely, an advertizing and public relations firm could supply details of its ethics policies without breaching client confidentiality or giving away industrial secrets. In contrast to this, G.E.C. - Marconi, a firm dealing with defence contracts and Hi-Tech research, supplied information on their codes of conduct and even gave a phone number for any further queries. Are

we to take it that the business of an advertizing agency is more sensitive than that of a Hi-Tech defence contractor?

These policies may neglect the complex moral problems inherent in confidentiality. What if confidentiality is used to cover up cases which are against the public interest? This is clearly a sensitive problem in some industries, such as armaments producers, tobacco producers, and the nuclear industry. For example, the ethical policy of one tobacco company states that the firm is fulfilling its social responsibility by carrying out research into what it terms "the current medical controversy on smoking" (Appendix B). However, it appears that over a period of many years the negative results of the research carried out on the effects of smoking tobacco has been suppressed by the tobacco industry (BBC1, *Panorama*, May 1993). Furthermore this company (B.A.T. Industries) spotted nothing incongruous in owning both a health assurance company (Allied Dunbar) and several tobacco companies.

A further example of the presence of a corporate and managerial ideology in company codes can be clearly demonstrated by considering the case of whistleblowing. Despite being recognized as a major issue in the literature on business ethics, whistleblowing is notably absent in the texts of company codes of ethics. This appears to be true of codes in both the US and the UK.

Where corporate self-regulation fails there is a need for whistleblowing to bring corrective pressures from outside the corporation. The discussion of whistleblowing is generally omitted in both US and UK corporate codes (Appendix; Benson, 1989; Winfield, 1990). Two-thirds of US corporate codes do not cover whistleblowing at all, and moreover, even when whistleblowing is discussed, the corporation tends not to promise the whistleblower protection

from retaliation by the corporation (Benson, 1989). On the whole corporate codes have completely disregarded the implications of whistleblowing.

Whistleblowing can be seen as a safety net for self-regulation. The public must be made aware of cases where members of a company are performing illegal or harmful activities which the company is doing nothing to rectify. Numerous cases exist where whistleblowers have greatly suffered for their honesty and openness in UK companies (Winfield, 1990). Some whistleblowers may not be acting from the noblest of motives but this does not negate the need for the public or legal authorities to be made aware of the dangers that may affect them. Winfield (1990) has observed that the business community in the UK is generally hostile to whistleblowers whether these are considered to be meritorious or not. To begin with, whistleblowers often feel pressure to resign from their jobs once they have decided to blow-the-whistle on their company, or they will be fired in the event anyway. By itself this is a stressful experience, and on top of this whistleblowers also have great difficulty in finding a new job. Other firms appear to be reluctant to take on someone who has been 'unfaithful' to their previous employer even if their case is clearly justified. The financial and emotional strains placed on whistleblowers can lead to bankruptcy, loss of home, divorce and even attempted suicide (Winfield, 1990). There appears to be rampant hypocrisy in society which accepts the need for whistleblowing but still treats the whistleblower as a 'squealer' or some kind of traitor.

This lack of respect and regard for (meritorious) whistleblowing is symptomatic of the corporate and managerial ideologies apparent in corporate codes of ethics. This example illustrates perfectly the lack of regard in codes for unethical behaviour which will harm interests other than the company's. It also highlights management's reliance on top-down control and their unwillingness

to discuss procedures in case of the failure of their own control; this would present an apparent challenge to their authority.

### **3.6 A Comparison of National Differences**

The above discussion demonstrates that a corporate and managerial ideology predominates the implementation of corporate codes of ethics in both the UK and the US. Some international surveys of corporate codes have explained national differences in terms of different cultural influences but not in terms of specific ideologies (Schlegelmilch and Langlois, 1989; Conference Board, 1987). European and UK codes have been found to give priority to issues such as the environment and community involvement rather than legal-political issues and conflicts of interest which are the prevalent issues in US codes. So, European company codes do not show the same company biases that are apparent in the US codes.

Evidence concerning the enforcement mechanisms of European and UK codes is very sparse, and as such it is more difficult to gauge the pervasiveness of a managerial ideology. However, firms in the UK show the same lack of regard and respect for whistleblowing as do the US firms. Not surprisingly, this attitude is also reflected in the implementation of their codes of conduct. Like US firms, companies in the UK are unwilling to discuss procedures in the case where management control of the firm fails.

### **3.7 The Just Implementation of a Company Code of Ethics**

Based on this ideological critique of company codes a number of recommendations can be made concerning their implementation. If a company code of ethics is to live up to its title then it must be fairly implemented. Much of the existing literature concerning the implementation of company codes of ethics has tended to underplay the ethical significance of the procedures for its formulation and enforcement.

#### **3.7.1 An Ideal Format**

Previous discussions concerning the ideal content of a company code of ethics have always used the stakeholder format. Under this format code prescriptions are divided into the relations with employees, customers, suppliers, shareholders, the local community, and society. These are usually set down in terms of the obligations of the company to particular stakeholder groups. Employees are the only group which is described as having obligations to the company. Not surprisingly the descriptions of an ideal format are similar to the more sophisticated company codes already in existence (for example, Shell's *Statement of General Business Principles*).

#### **3.7.2 Tailoring the Code**

A company's operations may infringe on some areas of social responsibility more than others. To some extent the relations with various stakeholder groups are directed by current legislation. For example, many concerns such as health and safety, environmental pollution, unfair discrimination and bribery

are commonly discussed issues in both ideal forms of codes and in operant company codes (Melrose-Woodman and Kverndal, 1976; Molander, 1987; Webley, 1988); these issues relate to different stakeholder groups in different ways.

Company codes elaborate on these issues to a greater or lesser degree depending on the company. For example, it would seem appropriate that firms in the heavy industrial sector should go into great detail on issues such as environmental pollution whereas firms in other sectors need not be so rigorous regarding this particular area; there is some evidence to suggest that this is already the case (Appendix B).

### **3.7.3 Participation and Due Process**

Of course, if one really wants to know what is in the interests of the stakeholders then why not ask them? How can a company claim that its code is fair to the stakeholders if their views are not given voice and woven into its content?

Participation is usually described as a means for gaining compliance in the literature on codes (Manley, 1992; Weller, 1988). Therefore, it would seem that a managerial ideology underlies even the ideal representations of company codes of ethics which have been set out by academics. Indeed, Peter Anthony is almost a lone voice in his criticism of management texts on account of their moral ambiguity,

"I know of no management writer who has acknowledged that his advice may ruin his reader's business but that it should be

followed, none the less, because it will improve the reader's manners or morals." (Anthony, 1986, p.164)

As a minimum requirement, all employees should be given equal opportunity to represent their own concerns in the formulation of a code (L'Etang, 1992). Also, there is a strong moral argument for consulting all those who are affected by the code, not only those who are subject to it. How can one claim to be behaving morally if one will not even listen to the concerns of those who may be affected by one's behaviour (Kant, 1785; Habermas, 1990)? This might entail the participation of diverse company stakeholders such as customers, suppliers, special interest groups, and the local community. Few of the articles concerning code implementation have recognized that participation is a genuine moral problem in the implementation of company codes of ethics. (Donaldson, 1989, L'Etang, 1992, and Winfield, 1990, are notable exceptions to this.) The importance of an ethical dialogue within business organizations and due process for implementing company codes will be returned to in greater detail in Part Two of this thesis.

#### **3.7.4 Levelling the Organizational Hierarchy**

Most, if not all, the existing proposals for code implementation have recommended that ethical concerns be reported up the hierarchy (Manley, 1992; Molander, 1987). Through company codes of ethics the company hierarchy can impose itself on the resolution of ethical concerns; this is reflected in both the content of operational company codes and the ideal types recommended in the literature.

This approach, by itself, must be seen as morally problematic. That is not to say that one must avoid one's boss when experiencing a moral concern, however, an official superior in the company must not be granted the role of a moral expert or therapist. The advice of the bureaucratic superior has no greater moral authority than the advice of one's friends and family. Therefore, other channels for airing one's ethical concerns must be open to the employee if ethical issues are not to be suppressed or rationalized within a company.

The call for some kind of bureaucratic reform has already emerged as a distinct issue in the literature on business ethics (Donaldson, 1989). This might entail the development of ethical forums to debate moral concerns openly within a company (Payne, 1992), or confidential reporting channels for cases where persons do not wish to be linked with their disclosure. These channels may have the effect of flattening out the organizational hierarchy so that ethical concerns will not be suppressed through power relations within the organization. These latter recommendations will be returned to once more in Part Two of this thesis.

## **Summary and Conclusions**

It would appear that a degree of both hope and scepticism are appropriate reactions to the emergence of company codes of ethics. This analysis has offered three general interpretations of the ideologies of which company codes are indicative.

The first interpretation is that codes represent a movement towards socially responsible business practice. On the surface this is how the codes are presented. In terms of social responsibility company codes start by recognizing



a wide range of stakeholders. They tend to focus at least as much on the corporation's obligations to secondary stakeholders (the local community, the environment et cetera) as to primary stakeholders (the shareholders, consumers et cetera).

Company codes best fulfil legal and economic obligations which may be considered a minimum requirement for social responsibility. However, these obligations appear to be directly related either to the interests of the firm or a managerial ideology. They are not traditional capitalist obligations since the evidence shows that shareholders are one of the least mentioned stakeholders in codes. Some codes also set out ethical and discretionary responsibilities, although a number of difficulties arise in quantifying the extent to which these prescriptions go beyond minimal social requirements. Activities such as charitable donations and community involvement are clear cases of company activity which exceeds minimal ethical expectations. Reference to other voluntary codes in the company code is another example. Despite this, company codes do not often extend their prescriptions beyond the minimal requirements of the law. This could be explained in two ways. On the one hand, it could be founded on a sincere moral belief that the corporation has no moral authority to legislate beyond the limits of the law. On the other hand, company codes may offer only minimal social obligations because this would not serve either the corporate or the managerial ideology which has been found to be pervasive throughout the implementation of these codes.

The second interpretation of company codes is that they represent the strains resulting from the conflicting social expectations placed on business. Superficially this is illustrated by the dissensus over what constitutes a company's social responsibility. However, a more sophisticated ideological interpretation of codes arises by setting them within a particular discursive

practice. In the texts of the company codes managers are represented as moral advisers or experts. The codes inform employees always to resolve their moral problems in the company's interests. If in doubt they are told to consult their superior within the company hierarchy. These are the only mechanisms recommended in codes for the resolution of moral problems in business. These mechanisms present a danger to the moral life of the business persons since they may absolve them of the burdens of their own moral responsibility. This must be of profound concern to business ethics since it suggests that codes may be used within a company for the suppression of moral inquiry, the very opposite of their ostensible purposes.

Finally, company codes have been interpreted as a manifestation of corporate and managerial ideologies. The corporate ideology is most apparent in the focal issues of company codes, since the economic interests of the company appears to be the dominant rationale underpinning the codes of both UK and US firms. Those codes that are not enforced may not promote corporate social responsibility, however they may still serve ideological purposes.

A managerial ideology is most apparent in the enforcement of company codes; a common feature throughout the initiation, design, and enforcement of codes is the predominance of top management. Some important moral issues are absent in the text of company codes which can also be associated with a managerial bias, most notably the issue of whistleblowing.

These three interpretations of company codes of ethics do not exclude one another. Any efforts within a company to fulfil its social responsibilities may be used and limited in codes by managerial and corporate ideology . On the one hand the doctrine of social responsibility will be furthered when it is adopted by

management. But, on the other hand, the doctrine may be limited where it is tailored to suit management's own interests.

Several recommendations have been suggested in order to overcome these ideological problems of code implementation. Particular emphasis must be placed on the moral significance of participation in the implementation of a code. Furthermore, other mechanisms must be introduced whereby ethical concerns can be raised and debated in a public manner. This latter recommendation is necessary to ensure that ethical concerns are not suppressed within the company hierarchy, and this point will be returned to in Part Two of this thesis.

This study has not told the whole story surrounding the uses of company codes of ethics. So far this study has uncovered the fundamental ethos underlying corporate codes whether ideological (in terms of power) or ethical (in terms of social responsibility). The next step will be to examine the effectiveness of company codes.

## **CHAPTER FOUR**

### **THE EFFECTIVENESS OF COMPANY CODES OF ETHICS**

Gauging the effectiveness of company codes of ethics is not a simple matter. Is their effectiveness to be measured simply in terms of how closely their rules are adhered to? Or is it to be measured in terms of how adequately the company meets its social responsibilities? Alternatively one might consider the consciousness raising (or damping) effect of codes. All these factors will be considered to some degree in the present chapter.

The first section of this chapter will outline some initial problems in measuring the effectiveness of codes. The codes are themselves subject to interpretation and as such resist straightforward measurement. The second section of this chapter will attempt to discern whether companies with codes act in a more socially responsible fashion than those without. This involves a discussion of their relations with the particular interest groups, the community, and the law. Following this a general picture of code effectiveness will be built up by investigating the specific procedures used for their implementation. This will expose weaknesses at all stages of the implementation of codes. Based on these findings, a number of recommendations will be made for improving the effectiveness of company self-regulation.

#### **4.1 Violations as a Measure of Success**

One might think that the measurement of code violations would provide an indication of their effectiveness. However, there is very little evidence available

concerning code violations. The measurement of violations alone cannot give a complete picture of the effectiveness of company codes. This can be said for two reasons. In the first place, codes can come in different formats which are more or less specific and thus vary to the extent to which they can be enforced; this will be discussed below. In the second place, if a large number of violations were discovered, then this could indicate that either the code had a very effective reporting mechanism, or that it had an ineffective deterrent mechanism, or both. Thus, an effective enforcement mechanism will not necessarily lead to either more or less violations being reported overall. This relationship is further complicated when one considers that the number of *actual* violations of a code may fall where there is an increased risk of detection, though the number of *reported* violations may rise for the very same reason. Therefore, only a thorough examination of the specific implementation procedures of company codes can provide a clear picture of their effectiveness. A further problem with code effectiveness concerns the interpretation of their rules.

#### **4.2 The Problem of Rule Interpretation**

Conformity to a code of ethics can be difficult to quantify because of the vagueness of many ethical prescriptions. On the one hand, the vagueness of company codes might indicate an unwillingness to be pinned down, but on the other hand, it might be considered a moral necessity. John Ladd (1957) has provided an analysis of the structure of moral codes which highlights this point.

Ladd has distinguished between ethics of direction and ethics of constraint. An example of an ethic of direction is Jesus's commandment to, "Love thy neighbour as thyself". This ruling encompasses a vast range of human activity,

and yet it does not specify exactly what activities are involved in loving one's neighbour. The vagueness of ethics of direction makes such prescriptions impossible to measure.

An example of an ethic of constraint is the Old Testament prescription, "Thou shalt not kill". This prescription is quite specific and is immediately applicable to human activity. Therefore, conformity to it can be easily measured. The specificity of ethics of constraint means that they cover only a very narrow range of behaviour, and so many of these prescriptions are required to cover only a few possible situations.

The following ruling has been taken from a US company code which is clearly illustrative of an ethic of direction,

"There may be times when SPC will need to change business direction and move into new market areas. This change in direction may affect some employees who do not have the necessary skills. The Credo underlies the belief that if an employee is displaced, we will handle the displacement in an open and fair manner." (from the *Credo of the Security Pacific Corporation*, Conference Board, 1987, p.22)

This ruling highlights that laying off employees is a very sensitive ethical issue, although it does not state explicitly what it considers to be a 'fair manner'. The only indication of what constitutes ethical behaviour in this ruling is that it be open. This can be contrasted with the ruling of another company code which reflects an ethic of constraint (in the *Articles of Association* of the Scott Bader Company Ltd.),

"We are agreed that in the event of a down-turn in trade we will share all remaining work rather than expect any of our fellow members to be deprived of employment, even if this requires a reduction in earnings by all." (Melrose-Woodman and Kverndal, 1976, p.31)

This ruling also highlights the sensitive nature of redundancy. Except that in this case a minimum standard has been set, and ethical behaviour concerning employee redundancies has been made explicit. That is to say, no jobs shall be lost within this company in times of economic hardship if it can be avoided. Typically, the constraining prescriptions in company codes of ethics are not so benevolent and are derived directly from existing legislation. For example, rules constraining the use of insider information and the acceptance of gifts are commonly covered by company codes (Webley, 1988; Sanderson and Varner, 1984; Cressey and Moore, 1983).

Rule interpretation is a fundamental problem in measuring the effectiveness of company codes of ethics. Those codes which contain more constraining prescriptions will have greater potential for providing evidence of violations. Whereas, those codes which contain mainly directive prescriptions will not have this potential for providing evidence of violations. Therefore, if company codes are not similar in their format then evidence of code conformity will be impossible to interpret. This categorization of moral rules into constraints and directives demonstrates the problems inherent in the interpretation and enforcement of moral codes.

This problem will be returned to later in this chapter in a discussion of the weaknesses of code implementation procedures. But before then, companies

which have adopted their own code will be examined for some obvious signs of socially responsible behaviour.

### **4.3 Code Rhetoric and Company Reality**

In practice, do companies really live up to their own ethical policies? Often they do because these policies state only vague obligations or common advantages arising from their area of business. For example, British Gas points out that, of the fossil fuels natural gas does the least damage to the environment. British Gas is thus fulfilling a social responsibility by its mere existence.

Company ethical policies are not drafted purely for the purpose of internal regulation and are more concerned with the company's public image. These documents do espouse general values, but they do not usually set out clear rules of conduct for employees. Some codes state what the company is actually doing rather than what it ought to do by describing its current programmes of social responsibility. Typical examples of such ethical policies include statements of the charitable donations made by the company during the year and the causes which the company supports, such as the arts, or inner city development, and environmental initiatives.

These documents can be described as positive action policies where values are expressed through current community involvement. In these cases there is no question of the company disobeying its code's prescriptions because the code simply describes current practices. These documents can be used to maintain good Public Relations, since they concentrate on the positive ethical initiatives of the company rather than the respects in which they are lacking. These



documents may be considered as expressing an outward-looking attitude since they tend to focus on community involvement. Whereas codes which focus on the internal regulation of working practices, and the reporting and sanction of misconduct, express an inward-looking attitude. Many of the respondents to the present survey supplied documents which are focused on the company's relations with outside interest groups (Appendix). And several companies supplied ethical policies which are focused on both their social responsibilities and the internal regulation of their business practices.

Are those companies which adopt their own code of ethics better able to deal with various social pressures? Some codes are public relations masterpieces; these documents concentrate on the ethical initiatives already operated by the company such as charitable donations, secondment, recycling waste materials, and urban regeneration. Other documents are more prescriptive, concentrating on what ought to be the case rather than on what they are already doing. These documents, however, tend to be quite vague when addressing sensitive ethical issues. To determine the success of codes as a reaction to social pressures it will be informative to refer to the responses of various pressure groups and review consumerist publications such as *The Green Consumer Guide* (Elkington and Hailes, 1991) and *Shopping for a Better World* (Adams et al., 1989).

Boycotts of a company's products might be taken to be a good indication of their public image. Over the past few years many companies have been subject to a boycott of their products despite having their own code of ethics; among them are Boots, Exxon, Nestle, Peugeot, Proctor and Gamble, Sainsbury, Shell, Tesco, Unilever and W H Smith. This would suggest that company codes do not adequately deal with some important social concerns. For example, many companies have been subject to consumer boycotts on

environmental grounds despite having ethical policies which cover this pressing issue. Exxon has a lengthy environmental policy though this did not prevent the Exxon Valdez from spilling its vast bellyful of crude into the Pacific. Boots' company code contains sections on animal experiments yet this fails to satisfy the animal right activists who boycott their products.

Boycotts alone do not provide a complete picture of the areas of social responsibility where companies may be found to be lacking. In *Shopping for a Better World* one finds that most companies operate several forms of social responsibility (Adams et al., 1989). This is the true for companies regardless of whether they had adopted their own code of ethics. But even those companies with their own code of ethics often leave some areas of concern neglected.

The shopper's guide recognizes areas of controversy in which many companies operate, such as the sale and production of tobacco, alcohol and armaments. A number of companies involved in these controversial activities have their own formal ethical policies. Typically, these include firms in the chemical and retailing industries. A number of firms which have extensive statements expressing an environmental concern are nevertheless found to be operating questionable practices in this regard, for example, British Gas, British Petroleum, Imperial Chemical Industries, Kingfisher Plc, Mobil Oil, ESSO Plc, Peugeot-Talbot, Shell, and W.H.Smith. This suggests that companies find it difficult to regulate their operations according to ethical guidelines even when these have been formalized. Organized pressure groups may be said to have the advantage of being single-minded, whereas managers have to take account of a range of responsibilities (Cadbury, 1987).

Those companies which have adopted their own codes of ethics may continue to be severely criticized by outside interest groups for neglecting their social

responsibilities. And, as such, many codes can be seen to be inadequate both in terms of public relations and in setting out corporate social responsibilities.

#### **4.4 A Complement to Legal Regulation**

Are codes evidence that corporations are acting in the interests of society as a whole? Another simple way of measuring this would be to discover whether the presence of a company code is associated with greater conformity to the law.

Survey evidence has found that a company's legal environment appears to influence the likelihood of its adoption of a code of ethics (Mathews, 1987; Melrose-Woodman and Kverndal, 1976). The content of company codes is also heavily influenced by this legal environment (Mathews, 1987; Sanderson and Varner, 1984; Melrose-Woodman and Kverndal, 1976). Many of the prescriptions in the codes appear to be related to specific acts of legislation; this is particularly apparent in the survey evidence from the US.

If the law itself was effective in regulating companies then company codes would appear to be unnecessary. However, a few notable studies have illustrated that the law is far from adequate in this area (Stone, 1975; Sutherland, 1945; 1949). In this light company codes could prove to be an essential extension of the law.

Some criminological studies have found that business corporations hold a privileged position with respect to the law (Black, 1980; Sutherland, 1945, 1949). This privilege has arisen from two main sources (Sutherland, 1945). In the first place, as organizations become bigger the location of responsibility

becomes increasingly difficult. In the second place, the behaviour of business persons is rooted in a peculiar rationality, where grossly irresponsible exploits may be undertaken without any particular malice. Take for instance the pollution of the environment, which is having some very pernicious effects on human health, even though it would be impossible to attribute criminal intent to many of the perpetrators.

The particular example Sutherland (1945) used to demonstrate this point is that of white collar offenders. He found that white collar offenders are unlikely to be given a harsh penalty for their crimes and that they are less likely to be taken to a criminal court in the first place. These privileges arise for several reasons. There is a belief that white-collar offenders are easily reformed. But more importantly, corporations appear to choose victims who are least likely to retaliate, such as the underprivileged, disorganized, or unaware.

More recently, Stone (1975) has provided a more extensive critique of the effectiveness of the law in regulating business corporations. At the root of the failure is that the law treats the corporation as if it were a single person. This is explained as follows:

"Some traditional legal sanctions developed to control human behaviour are inapplicable where the corporation is the actor (imprisonment, the death penalty) or may be practically unavoidable for other reasons (lack of effective jurisdiction over some operations of multinational corporations.)" (1975, p.112)

On the whole, the law has been very unimaginative and limited in the way it has regulated the business community. Generally, two methods of enforcement have been used, either imposing a fine on the corporate body or, prosecuting

key personnel within the corporation. Neither of these measures lead directly to a reform in corporate practice, because corporations are able to buffer themselves from the effects of these legal measures. For example, information and responsibilities are dispersed across many people within large corporations and it is often impossible to single out a key person who is responsible for a corporate misdeed. Also, the organization structure guarantees that corporate fines will fall upon the wrong persons, the innocent as well as the guilty. The burden of a fine may merely be absorbed as part of the company's operating costs; thus the legal process may not impinge directly on the business operations which gave rise to the violations in the first place. This can be seen in the UK industry where some companies find it cheaper to pay legal fines and continue polluting the environment than to install cleaner production technology (Friends of the Earth, 1990).

Therefore, business persons may not see legal constraints as an immediate part of their business reality; competitive constraints dominate. Stone warns that the traditional ethic of the law, to make the punishment fit the crime, may be unsuitable for the regulation of modern corporations. This desire for justice does not necessarily deter illegal behaviour, nor does it reform offenders. If the law is to have a genuine impact it must aim at changing the corporate decision making processes directly (Stone, 1975).

There is some evidence that company codes can address these problems. The content of company codes is greatly influenced by legislation, and it is not uncommon for a company's legal department to be involved in the code formulation process (Appendix; Webley, 1992; Manley, 1992; Mathews, 1987; Sanderson and Varner, 1984; Melrose-Woodman and Kverndal, 1976). Thus, company codes of ethics do provide evidence that some legislation is being internalized into corporate policy. Internal regulation can have a number of

advantages over the external regulation of the company. The corporate members have a far greater knowledge of their own operations than do the legal authorities, and self-policing by the corporation could provide far better surveillance than could policing by authorities from outside the organization. In this light the corporation might be considered better able to translate the requirements of the law clearly in terms of its own business practices (Conway and Houlihan, 1982).

This argument is supported by the observation that company codes of ethics are often tailored to the particular environmental features of the firm (Appendix; White and Montgomery, 1980; Melrose-Woodman and Kverndal, 1976). Company members might be sensitive to the particular unethical or illegal situations that are likely to arise in its daily operations. This is exemplified in a recent UK government report on the 1990 Food Safety Act. This report points out the inability of government agencies to regulate Britain's food industry; it states that,

"Control of food safety is becoming more scientific. Increasingly enforcement authorities will require expertise that goes beyond the standard training of EHO's and TSO's [Environmental Health Organizations and Training Standards Organizations]... The major companies in the food industry employ many specialists with such qualifications and the enforcement authorities need to match this expertise." (p.7-8)

Many big companies advocate smooth relations with regulatory authorities in their codes. Company codes of conduct can be particularly useful where the legal authorities do not have the appropriate knowledge of the situation and are

unaware of the potential dangers until after they have happened. In this way company codes can be proactive and overcome some of the reactive tendencies of the law.

The specialized knowledge contained within the corporation could give self-regulation a further advantage; that is, the corporation may be more able to pinpoint accountability than the law. If a manager feels directly accountable for a particular area of corporate activity then that person will be less likely to ignore any misconduct.

Despite this, there is evidence that often company employees, or at least its top managers, are not aware of specific moral concerns within their organization. This has been claimed by management in notable cases such as the Zeebrugge ferry disaster, the Clapham Junction rail disaster, and the recent "dirty tricks" campaign of British Airways. These are cases where professional codes, and sometimes legal codes, have already been violated. What can be achieved by a company code of ethics or code of conduct in cases of this kind? This question will be examined in detail in the following chapter (Chapter Five)

The potential benefits of self-regulation do not appear to have been realized in practice. The only comprehensive attempt at measuring the effectiveness of company codes in legal terms has been carried out in the US (Mathews, 1987). Mathews compared evidence of the legal violations of the four-hundred and eighty-five most profitable firms in the US with the absence or presence of a code in each firm. The major finding of this survey was that there is no significant relationship between corporate legal violations and company codes of conduct. The only factors that were found to influence the number of corporate legal violations were a firm's size and its type of industry.

The size of a firm and its type of industry are both positively related to the likelihood of code adoption (Holt, 1980; Conference Board, 1987). However, a far higher incidence of illegalities exists in these large firms and in some industries, where these factors far outweigh any effect a code might have on corporate illegality (Mathews, 1987).

As a method of self-regulation company codes appear to have failed in many fundamental respects (Holt, 1980; Opinion Research Corporation, 1980). Virtually none of the issues in company codes appear as a result of the corporation's own initiative (Holt, 1980). Rather, legal prompting always preceded any significant changes to the content of these codes. Without the constant external prompting by the law it is possible that the majority of codes would remain undeveloped, if not entirely disregarded. This trend is also apparent from the research done into UK company codes (Appendix; Webley, 1992). Therefore, despite all the potential legal benefits of self regulation it appears that they are not realized in practice.

#### **4.5 The Case for Code Effectiveness**

This section will examine the effectiveness of company codes on their own terms instead of using external standards, such as the law or the concept of social responsibility. Evidence which directly concerns the extent to which employees act in conformity with their company's code of ethics is very sparse. One survey of companies in the US has reported that,

"The few [respondents] who have measured code effectiveness report that few violations of the code were detected and that, in



general the code seems to be effective." (The Opinion Research Corporation, 1980, p. 101)

UK companies also appear to be somewhat unaware of the general effects of adopting their own code of ethics (Appendix B; Winfield 1990). On the whole, there is little evidence to indicate that companies discipline their workforce on the grounds of their ethical policies (Appendix). However, as already pointed out, the level of reported violations of a code does not necessarily reflect its effectiveness. Therefore, a picture of the effectiveness of codes will be built up indirectly using evidence of their implementation practices.

A large scale survey of business persons in the US has found that attitudes towards company codes of ethics are fairly pessimistic (Brenner and Molander, 1977). Sixty-one percent of the one-thousand-two-hundred and twenty-seven respondents felt that people would violate a code whenever they could avoid detection. Only forty-one percent felt that a code would reduce underhand practices. It would appear that strict code enforcement is essential if codes are to be effective, but one international survey has found that,

"Even company officials who favour codes do not agree that they necessarily deter wilful misconduct." (The Conference Board, 1987, p.13)

Thus, even those who actually enforce their company codes are very sceptical about their potential. Despite these attitudes, there are a few empirical studies which suggest that an enforced company code could, in fact, have some influence over a person's moral behaviour (Laczniaik and Inderrieden, 1987; Worrel et al, 1985; Weaver and Ferrel, 1980, 1978). This evidence is drawn

from experiments which investigated the effects of company policy on the attitudes of business persons. This research suggests that if company codes were implemented properly then they could be used to alter employees' perceptions of their moral concerns, and therefore deter code violations.

Some of these experiments have found that a person's attitudes to specific conduct can be influenced if this conduct is officially condemned by the organization (Worrel et al, 1985; Laczniak and Inderrieden, 1987). Based on this observation, it was suggested that certain decisions will likely increase if rewarded and decrease if punished, thus providing a fairly superficial argument for backing codes with sanctions. These studies concluded that without the threat of sanctions the presence of a code can have no significant impact on managers' decision making behaviour.

Other studies have found that the existence of company policy can have an effect on the ethical views of business persons even without the threat of punishments (Weaver and Ferrel, 1980, 1978). However, the methodological assumptions of all these experiments may contain serious inadequacies. For example, there is only minimal discussion of what the survey participants may have meant in their use of moral terms. In some cases the fact that these experiments were a test of a person's ethics was made explicit. Therefore, participants were more likely to manipulate their answers to show themselves in the best possible light. It is hardly surprising then, that the participants' attitudes to this survey were significantly affected by the presence of policy even without the threat of sanctions. In any given context people are likely to give accounts for their behaviour which shows them in the most favourable light (Konovsky and Jaster, 1989; Goffman, 1959).

This research demonstrates how a company's ethical policies might have some influence on the attitudes of its members. These findings suggest that company codes could be used to raise awareness of specific ethical issues within an organization. The evidence discussed above also highlights the importance of enforcement if a code is to be effective. However, these experiments may be criticized since they have taken a very narrow view of the uses of company policy. An organization's rules can also have many unintended consequences; for example where they set minimum standards they may be used as a bargaining tool by their subjects (Gouldner, 1954). Furthermore, punitive sanctions are not be the only mechanism for discipline in an organization. This latter point will be elaborated below in the recommendations for code implementation.

#### **4.6 The Inadequacies of Code Implementation**

Very little empirical research has been conducted into the ways UK companies enforce their codes of ethics in practice. Those surveys which have examined the implementation procedures of codes do so only briefly (Manley, 1992; Webley, 1992). In the US one survey has found that few companies keep any record of code violations, and those that do have not detected very many (The Opinion Research Corporation, 1980). Apparently, the respondents to this survey chose to interpret this as a sign that their company code was effective. However, much of the evidence discussed above suggests that this may be an over optimistic explanation for why few violations are detected and punished. In fact, the apparently low number of code violations may equally indicate that company codes of ethics are not being implemented with a great deal of enthusiasm. By itself the measurement of code violations does not reflect the effectiveness of a code, and so, it will be necessary to examine each stage of the

code implementation process to determine how rigorously they are being applied. Only this can give an accurate picture of the general effectiveness of company codes. This will require an analysis of the various procedures which may be employed in their implementation - how they are formulated, disseminated, revised; and what channels are provided for the surveillance and reporting of code violations, and the provision of penalties.

A number of speculative articles exist which have attempted to show that company codes cannot provide an adequate form of social regulation, however, these discussions have neglected to support these speculations with empirical evidence (Maitland, 1988; Bowie, 1990; Birloff, 1978). The present analysis of code implementation will be based on the framework provided by Beets and Killough (1990), which was previously used for a study of the effectiveness of professional codes of ethics. Company codes of ethics and professional codes are similar in structure since they both rely on self-policing, and they are both complaint based ethics enforcement systems.

It can be argued that formal codes of conduct will be effective when the risks of violating a code outweigh the benefit of the offence (Beets and Killough, 1990). These risks can be divided into three aspects of code enforcement: the detection risk, the reporting risk, and the penalty risk. For a code to provide an effective deterrent all these risks must be significant; for instance, if any one of these risks is zero then the overall deterrent effect will be zero. A weakness at any stage of code implementation can thus be fatal to its overall effectiveness.

The definition of code effectiveness in terms of deterrence has a rather negative emphasis. Admittedly, deterrence does not fully account for the consciousness raising effect of company codes. However, the same procedures for detection and reporting can be used for raising ethical issues in general as well as for

dealing with violations of specific rules. In accordance with this observation the following discussion will examine the general effects of codes on raising ethical issues within corporations, not merely their deterrent effects.

#### **4.6.1 The Detection Mechanism**

The detection risk is made up of two factors: those who are expected to enforce the code must be aware of its rulings, and they must also be able to witness the violation. Thus, the more members of an organization who are familiar with its code the more likely that any violation will be detected. Given these conditions, the evidence concerning company codes would indicate that the detection risk will be very low in a large number of corporations. This is supported by the findings of surveys in both the US and the UK, which have reported that only about two-thirds of firms distribute their codes to all their employees (The Conference Board, 1987; Mathews, 1987; Melrose-Woodman and Kverndal, 1976; Schlegelmilch and Houston, 1988). In the survey findings described in the Appendix only a third of the responding companies have distributed their codes to all employees.

Less than half of company codes are accompanied by an ethics education programme (The Conference Board, 1987; Winfield, 1990). Also, in less than half of these cases are all employees invited to these programmes. Why are so many employees left out of the dissemination process? Surely anyone can detect a code violation, manager or not?

To arrive at a moral consensus during the formulation of a code requires that the diverse interests involved are fairly represented in the first place (L'Etang, 1992). If many codes are not disseminated to all company employees then it is

quite possible that they do not represent their ethical concerns either. For example, in the survey findings of this thesis no company described a formulation process where all its employees were fairly represented (Appendix B). A recent international survey of company codes has found that employee representation in code formulation is poor in all countries (The Conference Board, 1992). This survey also found that managers discuss code formulation with employee representatives in only fifty-five percent of European companies. This figure is even lower at thirteen percent for US companies.

Another criticism concerning the dissemination of codes concerns the format in which they are designed. The relationship between the principles of authority stated in codes and actual company policy is rather obscure (Cressey and Moore, 1983). Similarly the codes of UK companies tend to be too general and broad to be easily applied within the business context (Appendix B; Schlegelmilch and Houston, 1988). Schlegelmilch and Houston (1988) in the UK, and Cressey and Moore (1983) in the US, have both reported that a clear company code of ethics is the exception rather than the rule. The ethical policies that were collected for the present thesis varied a great deal in the extent of their clarity, detail and comprehensiveness.

These observations about the clarity of company codes are central to their effectiveness. Could such codes be used to address any ethical difficulties in business? Although codes often set out an agenda of ethical issues they tend not to prioritize these, particularly where there may be conflicts of interest (Hosmer, 1987). Codes frequently express a company's responsibility to different interest groups without stating which takes precedence in any particular situation; a code which covered all the possible situations would undoubtedly be very long indeed. Such codes are probably of very little help to employees who are experiencing a conflict of interest between any company

stakeholders. For example, the relocation of a plant might increase profits for shareholders but threaten the jobs of existing employees, and the company might have expressed a responsibility to both employee interests and shareholder interests in its code of ethics, so how is one to decide in such specific cases?

Companies appear to reject any attempt to formally prioritize interest groups in this way, but this does not imply that a code of ethics will be entirely ineffective. There is a limited range of conduct which is clearly forbidden in the texts of many company codes, such as bribery and the theft of company property. Some kind of forum for discussion might be helpful in the dissemination of codes specifically in with regard to their interpretation and in cases where priorities remain ambiguous. (This will be discussed in greater detail in Part Two of the thesis.)

#### **4.6.2 The Reporting Mechanism**

What makes a person report an ethical concern or a code violation? This depends very much on the motivations of the witness; for example, the witness might be discouraged from reporting a code violation where it was committed by a peer or where it might damage a business relationship. The most common procedures for reporting code violations are via the corporation's legal department, top management, or the direct supervisor (Appendix B; Cressey and Moore, 1983; Mathews, 1987).

Company codes in the UK appear to be deficient in this aspect of implementation as in all others. The most extensive survey of UK codes to date has observed that,

"Very few companies appear to provide a formal mechanism for an employee to report an infringement of their code of business conduct." (Webley, 1992, p.19)

In Webley's survey only two cases of a formal reporting mechanism were given from a collection of one-hundred and thirteen codes.

Some companies have mechanisms for reporting ethical complaints which are not outlined in their code of ethics (Winfield, 1990). The most commonly defined channels are open door policies, normal grievance procedures, management/employee committees, and a union representative. Various combinations of these mechanisms are already widespread throughout UK industry (Winfield, 1990). Confidential complaint procedures may be considered a particularly important channel for reporting ethical concerns. Confidentiality could reduce the possible risks of retaliation against witnesses who report code violations or wish to air their moral qualms. Only seven of the fifty-three companies which responded to Winfield's survey had confidential reporting procedures.

Reporting mechanisms can be used for raising general ethical concerns and not only for dealing with violations of a company code. To dwell solely on cases of misconduct may only serve to emphasize the oppressive aspects of implementing a company code. It is hardly surprising that relatively higher frequencies of ethical concerns were raised in those companies which have more mechanisms for enabling these concerns to be heard. This suggests that when these mechanisms are adopted they are quite effective in raising the ethical sensitivity of employees and the organization as a whole.



### **4.6.3 The Disciplinary Mechanism**

The effectiveness of a code might be enhanced if it is reinforced using sanctions, otherwise reporting code violations could be discouraged if witnesses believed that this would result in no penalty for the offender (Beets and Killough, 1990). The penalty risk depends on both the power and sternness of the regulating authority. The most common sanctions discussed in US company codes are dismissal and legal prosecution, where dismissal is mentioned in over a third of US codes but less than two percent of these go into any detail (Mathews, 1987). Legal prosecution for code violations is discussed in about a quarter of the codes whereas demotion and reprimand are mentioned in only a very few.

Corporate officers appear to be most divided on whether sanctions should be provided in their company codes, and sanctions are very rarely applied by corporations for violations of their ethical codes (The Conference Board, 1987; The Opinion Research Corporation, 1980). This observation probably reflects the limited authority which the corporate body exercises over the lives of its members. Of course, this reluctance to apply sanctions may equally reflect the lack of commitment to the enforcement of their codes of ethics. That is not to deny the value of discussing ethical concerns, even in the absence of any threat of disciplinary sanctions. Indeed, the purpose of raising ethical concerns must not become solely linked with the idea of punishment. Otherwise discipline may generate an oppressive and secretive culture where ethical debate will not flourish. A non-punitive approach to discipline will be explored below.

Company codes are often implemented without any committee or systematic method of enforcement (The Conference Board, 1992; The Opinion Research

Corporation, 1980). Frequently a single member of staff has responsibility for dealing with code violations where, typically, code enforcement is not the primary duty of the enforcement agent. These enforcement agents are inevitably from the top levels of management.

The emphasis on sanctions apparent in the texts of US company codes is not reflected in their UK counterparts. The most extensive survey of UK company codes contains no discussion of code sanctions and presents no evidence whatsoever of their existence (Webley, 1992). Another extensive survey of UK company codes gave only three examples of companies which implemented some disciplinary procedures (Manley, 1992), though on closer inspection of these procedures there is no mention of the word moral or ethical anywhere. This supports the finding that existing bureaucratic measures are sometimes used to deal with ethical concerns such as the normal grievance procedures and trade unions representatives (Winfield, 1992).

The present survey findings indicate a similar lack of evidence of any disciplinary measures for code enforcement (Appendix). Seven out of the thirty-three responding companies stated that their code was enforced, always by management. No cases of sanctions or disciplinary action of any kind was given by these respondents, where this was explained by them as a clear sign of their codes' deterrent effect. These survey findings also suggest a link between code enforcement and code format; those codes which were claimed to be enforced also tend to be more clear and contain more specific prescriptions than non-enforced codes. It would appear that the mere fact that a company claims to enforce its code of ethics has some impact on the content of that code and the way that it was drafted.

#### **4.6.4 The Audit Mechanism**

Some procedures for auditing and revising a code could be used to ensure that it is contemporary, and that it is being adequately enforced. The Opinion Research Corporation (1980) has reported that only nine percent of company codes in their sample were subject to an audit, and only fifty-six percent of codes had been revised since they had been drafted. The main reason for revising a code was to keep up with new legislation and it was rarely the result of a self-conscious examination of a code's current inadequacies. The danger of this state of affairs is that these codes will only serve as empty rhetoric for companies which are merely feigning moral concern. They are making ethical claims, but are not even considering feedback from those who they purport to represent.

On the whole, UK companies do not monitor any of their ethical initiatives either, and yet, without such audits it is impossible for a company to gauge the success of its ethical policies (Winfield, 1990). Audits might give reason to dispel any false optimism concerning the effectiveness of a company code, an optimism which is sometimes expressed by the managers of UK firms.

This analysis has provided evidence to show that there are grave weaknesses at each stage of the implementation of company codes. Therefore, it would appear that at present company codes of ethics are not being used to much effect.

## **4.7 Recommendations for Code Effectiveness**

The following recommendations derive from both the theoretical and the empirical research into company code of ethics (Appendix; Huberman, 1964; Manley, 1992; Winfield, 1990; Weller, 1988; Molander, 1987). These recommendations for code implementation will refer to the detection, reporting, and disciplinary mechanisms which were discussed above.

### **4.7.1 Raising the Awareness of Moral Concerns**

Three main areas will be addressed concerning the detection of code violations and, more generally, the circulation of ethical concerns within an organization; these areas are, participation, code format, and dissemination. Commitment to the code must be seen to come from the top of a corporation, but it must not stop there. The need for participation in the drafting of a company code of ethics is a pragmatic as well as a moral requirement (L'Etang, 1992; Winfield, 1990; Weller, 1988). Representatives should be included from across the organizational hierarchy, who might be involved in the formulation and policing of a code. A code must be seen to be legitimate in the eyes of all the employees if they are going to be committed to it.

The group of representatives elected to draft a code should not be very large otherwise it may lose any sense of direction and purpose (Weller, 1988). The format of a code must be clear and comprehensible; it must link both company values, strategies and purpose with actual practice (Winfield, 1990). Not only must an agenda be set out, but priorities must also be established within a code, since adding moral issues to the company's agenda without clear priorities may only increase confusion. Clear priorities would provide less ambiguous

guidance for company employees and offer greater deterrence for unacceptable conduct.

After drafting a code, its content and message must be disseminated throughout the company. Any employee could detect a violation of a code if they were aware of its rulings, and so codes should be disseminated to all employees. The dissemination of a code could be greatly enhanced by an ethics training programme. If all company employees were involved in this kind of training then commitment to the code might be increased. Regular communications concerning the code might help to emphasize the organization's commitment to ethical concerns, and distributing the code to interest groups outside the company might also increase its effectiveness (Molander, 1987; Winfield, 1990). This is of obvious importance with respect to the ethical concerns of suppliers, unions, major customers and even pressure groups. Not only could it be used as a public relations exercise, but these interest groups could provide a valuable channel for reporting ethical concerns and suspected code violations.

#### **4.7.2 Improving the Reporting Mechanism**

A number of measures could be taken within an organization to enhance the reporting of ethical concerns. This area of code implementation is very important since it entails changes to the corporate structure. The introduction of confidential reporting channels could be used to reduce the need for whistleblowing (Benson, 1989; Winfield, 1990). The anonymity of those who report their concerns must be respected in order to protect them from any possible reprisals; this is particularly necessary where the concern involves an employee's superior (Weller, 1988).

Open door policies may further encourage ethical concerns to be raised within a company, and there is already evidence of the adoption of such policies within UK companies (Winfield, 1990). Open door policies make it more likely that the ethical concerns of employees will rise to the highest levels of the company, and so the top managers might become more aware of the various ethical concerns which permeate their company's operations. However, these policies might be more difficult to introduce in companies which already operate tight line management (Benson, 1989).

Reporting channels could also be used for feedback on the code itself. A code must be open to revision if it is to be kept alive in the minds of those who are subject to it. The way in which ethical concerns are raised by employees and the response to these concerns may be considered as a part of this review. So both the content of a code and its enforcement mechanisms may be subject to revision. This would give a clear indication of any further tailoring which could improve a code's overall effectiveness.

The establishment of an open forum for the discussion of ethical concerns in company time might also be used to air the moral concerns of employees. The importance of this approach to business ethics will be emphasized in Part Two of this thesis.

#### **4.7.3 Improving the Disciplinary Mechanism**

A proposition which has underlain much of the discussion so far is that punishments and rewards are essential to the effectiveness of company codes of ethics. So far none of the work which has been considered above has challenged this presumption. The strict enforcement of codes with sanctions

may be one sure way of demonstrating corporate commitment to the code, and this has been a common recommendation in studies concerning company codes (Molander, 1987; Trevino, 1986; Weller, 1988). Even the empirical research discussed above has supported the use of sanctions in code enforcement (Laczniak and Inderrieden, 1987; Worrel et al, 1985; Weaver and Ferrel, 1980). However, these surveys have not considered the personal stress that moral problems can give rise to (Waters et al, 1986). The threat of punitive sanctions may simply add to the burden of those confronting a moral dilemma. It is not surprising, then, that companies appear to be reluctant to provide for sanctions in their codes and equally reluctant to apply them (Appendix; Conference Board, 1987; Mathews, 1987). An alternative non-punitive approach to discipline may be far more effective than a traditional punitive approach.

A new direction for the enforcement of company codes may be drawn from the work of Huberman (1964). He has asked,

"Could it be that punishment does not pay? ... Experience indicates that even severe punishment achieves nothing to redirect behaviour into more desirable channels, at least in the large majority of cases. The 'penal ritual' we are engaged in seems entirely futile." (p.65)

Huberman also cited the high rates of recidivism of criminals that have been to prison in support of his argument that traditional punitive attitudes are ineffective. This kind of criticism is supported by the labelling school of criminological thought (Chambliss, 1988; Schafer, 1976). Labelling theory sets out to explain the social process whereby an offender is transformed into a delinquent. Once an individual has been punished by the law, society will

continue to discriminate against that person. It then becomes impossible for the offender to fit into a normal social group and increasingly likely that the individual will transgress again. Huberman draws a very basic lesson from these observations: if the response to bad conduct within a corporation is an immediate punishment, then this may serve only to build up resentment rather than to deter misbehaviour.

#### **4.7.4 Discipline Without Punishment**

Huberman has proposed that corporations should adopt a system of discipline without punishment. This system does not ignore violations of company policies, nor does it react by immediately dismissing the offender. The non-punitive approach to discipline is far more subtle than traditional punitive measures. When violations are initially discovered the manager should meet privately with the offending employee to discuss the problem informally. This meeting should not involve a threat of punishment, but should be a sincere attempt to understand the offender's position. If the problem persists the next step would be to give the offender a written reminder.

The primary purpose of the steps in the non-punitive approach to discipline is to gain the employee's agreement to change. Reminders need not go on the employee's permanent record. Eventually, the offender may have to be placed on suspension for a few days to think about their position. While on suspension the offender should still be paid in order to emphasize the non-punitive nature of this measure. Paid suspension can have many benefits; it reduces the need for the individual to save face, and may be seen as a sign of good faith on the company's behalf. Of course, if this approach fails then dismissal may be the only course of action left to the corporation, but as a last



resort. Non-punitive discipline disposes of the need to make the punishment fit the crime. In the case of legal violations the non-punitive discipline may be bypassed and legal action taken immediately.

Evidence has become available since Huberman's article was published on the success of non-punitive approaches to discipline (Campbell et al., 1985; Huberman, 1975). This evidence has been wholly positive in its support of the benefits of non-punitive discipline. Companies which have implemented a non-punitive approach to discipline have shown benefits including a reduction in employee turnover, a reduction in disciplinary incidents, and a reduction in grievances.

This non-punitive approach changes the sanction risk of the enforcement process; it changes the nature of the enforcement process by encouraging reformation instead of retribution. Enforcement must label or stigmatize the offender as little as possible if it is to reform, otherwise, the enforcement process may not be self-policed at all, or will merely increase resentment against the company. Although the original research was concerned with corporate policy in general, it seems to be particularly appropriate to extend this approach to the enforcement of company codes of ethics.

This may be interpreted as a step away from traditional paternalism and the authoritarian rule of the corporation. In the traditional punitive approach to discipline the offender is excluded from the decision making process, whereas in the non-punitive approach the offender is involved in the decision making process throughout.

Alternatively, a non-punitive approach to discipline could be interpreted as a more subtle method of manipulating the workforce. There are certainly moral

dangers inherent in any system of discipline (Foucault, 1977). Work itself is a complex disciplinary mechanism in terms of the way the actions of each employee are constantly accounted for, through the timetable, in a given space, performing their given job. So codes of ethics should not be seen as mere rules for regulating ethical behaviour, independently from the discipline of work (Chapter Nine). In the previous chapter numerous illustrations were given of how the implementation of company codes of ethics is infused with certain power relationships. The mechanism represented by company codes holds several dangers for the moral choices of individuals - they may come to passively accept the authoritative interpretations of the code's enforcers (i.e. management). Further dangers may lie in the way in which the disciplinary mechanism focuses on an individual's unethical behaviour, where the individual may become a scapegoat for an entire organization. This latter concern will be elaborated in the following chapter.

This non-punitive approach to discipline might prove to be a more effective approach to enforcing a company code of ethics. And it might also be considered a more liberal and ethical approach to enforcing discipline within the company. However, no matter how successful the disciplinary methods of a code one must be wary of the moral implications of this discipline; ideological dangers are inherent in any attempt at corporate self-regulation. Therefore, any recommendations to improve a code's effectiveness must be considered alongside the recommendations for implementing it justly.

## **Summary and Conclusions**

This chapter has shown that gauging the effectiveness of company codes of ethics is not a simple matter. In the first place, the codes themselves are subject

to interpretation and as such resist straightforward measurement. Therefore, to begin with, an attempt was made to discern whether companies with their own codes do in fact act in a more socially responsible manner than those without. Then to complement this, a general picture was built up of the ways in which these codes are implemented.

The first part of this analysis began by examining the relations between companies and their external interest groups. It was found that those companies which had adopted their own codes have continued to be severely criticized for neglecting their social responsibilities. At the same time, codes have proved effective in terms of a limited range of social responsibilities; this is most apparent in those ethical policies which focus on the relationship between the company and the community.

Company codes may also offer many potential advantages in terms of legal regulation. Self regulation could prove to be a far more efficient way of enforcing the law than the impositions of external agencies. However, these benefits do not appear to be realized in practice, where the adoption of a code appears to have made no significant difference to a company's legal history. On the whole, codes do not pre-empt the law, but merely react to the ever increasing legislation over business activities.

Then these observations were further supported by an investigation into the ways in which codes of ethics are implemented in practice. The evidence gathered from surveys of codes in both the US and the UK is far from encouraging on this account. At present they do not appear to be implemented very rigorously, and so any educational or deterrent effect they might have will be rather minimal.

Based on this analysis a number of recommendations have been made in order to improve company self-regulation. This includes taking steps such as more involved participation in a code's formulation and enforcement, the introduction of reporting channels, and the use of non-punitive discipline. The next step in this thesis will be to uncover the deeper reasons for the very limited effectiveness of company codes of ethics.

## **CHAPTER FIVE**

### **COMPANY CODES : A CATALYST FOR MORAL CHANGE?**

In the previous chapter company codes were shown to be implemented very poorly and are ineffective to this extent. But that analysis has presented us with only the symptoms of code ineffectiveness and not the possible causes of this. The present chapter will attempt to inquire deeper into the roots of this situation.

If only company codes of ethics were implemented properly then surely the ethics of business will take a turn for the better? This simplistic proposition ignores the possibility that the members of a company may have little motivation to impose strict rules of behaviour upon themselves. The following discussion will examine the institutional, psychological and ideological features of corporations in order to determine the underlying causes of the ineffectiveness of codes which have been hidden from us so far. The issue central to this discussion is that there are certain features of an organization which lead to irresponsible and unethical behaviour.

Corporate codes of ethics will be shown to have severe limitations as a mechanism for the moral regulation of business. It is the contention of this chapter that company codes of ethics are limited to a largely apologetic role in relation to business practices. There are deeper social currents which underlie many moral problems within business, which cannot be adequately addressed in the text of a code of ethics. As such codes will be shown to be impotent when confronted with patterns of unethical behaviour which have become

institutionalized. The final section of this analysis will propose some recommendations aimed at overcoming these limitations.

### **5.1 A Moral Analysis of Corporate Culture**

Some academics have claimed that the culture of the corporation can be seen to have an ethical dimension (Weber, 1990; Pastin, 1986; Trevino, 1986). This claim has been supported by research into a Kohlbergian scheme of moral development, which proposes that the ethical climate of an organization can actually be measured by finding the level of its members' moral reasoning (Weber, 1990; Trevino, 1986). This research also posits that the moral climate of an organization can affect the behaviour of its individual members. According to Trevino, only those people at the highest stages of moral reasoning will be able to resist institutional pressures to behave unethically. Although the present chapter does not draw directly on such Kohlbergian frameworks, it remains the contention of this chapter that the culture of a company can have a profound effect on the moral behaviour of its members.

“Culture is one of the two or three most complicated words in the English language”, or so said Raymond Williams in an attempt to provide a brief but precise definition of this slippery word (Williams, 1983, p.87). The concept of culture may be understood in many different ways. On the one hand, it has an elitist interpretation where it denotes the pursuits of a civilized person, such as art, philosophy and literature. On the other hand, it can take an anthropological meaning, where a culture signifies a whole way of life, including social institutions, rituals, practices, ideas, images, and texts. This directly concerns the ways in which people make sense of their lives and attribute meaning to their actions. In this latter sense it is complicated further, because it can be

used to refer to both the processes which make up our social reality and the product of these processes (Williams, 1983; Jelinek et al., 1983).

Business organizations have been described as moral communities which have their own identifiable cultures (Deal and Kennedy, 1982). The organizational culture may be said to express the group's shared values and beliefs (Schein, 1985). Thus it defines what is understood as acceptable and unacceptable behaviour in the corporation. The development of rituals and heroes are symbolic vehicles for corporate values, where the culture evolves with the development of these rituals (Deal and Kennedy, 1982). Through these rituals corporate members become trained in specific modes of behaviour; and so the culture can absorb and educate new members.

Smircich (1983) has observed that historically, the study of organizational culture has been dominated by metaphors which compare organizations to machines and organisms. Some authors have even recommended that managers can manipulate their corporation's culture in order to increase productivity and cope with the turbulent economic environment (Deal and Kennedy, 1982; Peters and Waterman, 1982). However, as Smircich herself has pointed out, organizational cultures may also be seen as political arenas where different interest groups struggle for power, or as theatres where people/actors play out their allotted roles. In fact, it may not be such a straight forward task to manipulate a corporation's culture, nor may it be desirable to expound such advice.

In the present chapter, the culture of an organization will be examined by using two general approaches; the first will inquire into the determinants of irresponsible behaviour, and discuss whether there are any contingent factors which appear to lead to cases of corporate misconduct. And second,

organizations will be examined in terms of the way people make sense of their behaviour. This will pay particular attention to the way in which people rationalize their actions as members of an organization, and how they reconcile themselves with the irresponsible or unethical behaviour which goes on in their organizations.

## 5.2 Can Corporate Cultures be Corrupting?

By first examining the development of irresponsible and unethical cultures we can later see whether or not codes could be used to address these problems. Are there features of corporate life which predispose a person to act unethically? In a critical essay of US corporations, C.Wright Mills observed that,

"Of course, there can be corrupt men in sound institutions, but when institutions are corrupting, many of the men who live and work in them are necessarily corrupted." (1963, p.331)

Here, Mills has recognized the profound importance of institutional life on the moral character of its members. Some recent enquiries into corporate disasters have highlighted the importance of the institutional features which can lead to disastrous events (Boyd, 1989; Hidden, 1989; Jones, 1988). In March, 1987, the car ferry, the *Herald of Free Enterprise*, sank with the loss of one-hundred and eighty-eight lives. The bow doors had been left open as the ferry left Zeebrugge harbour, allowing the sea to pour in and capsize the ship. Should the ship's captain be blamed for this? It was his responsibility to run a 'tight ship'. Should the ship's boson be blamed? He was directly responsible for closing the bow doors. In fact, the Court of Investigation found that the causes



of the disaster went far beyond the crew of that ship (Boyd, 1989). They found numerous contributory factors to the disaster, all of which had been known by the company's managers; the whole culture and structure of the Townsend Thoresen corporation contributed in some way to the likelihood of such a disaster.

These corporate disasters are often referred to as tragic events; however, this is a misleading description. The essence of a tragedy is that there is no way out, it necessitates a choice between equally ruinous outcomes. In a tragedy a harmful outcome is unavoidable and the virtuous character must embrace their fate, but in the case of many corporate disasters the harmful consequences might well have been avoidable. For instance, in the case of the *Herald of Free Enterprise* sinking, the company had been aware of the danger. Before the disaster there had been five occasions where other ships had left the harbour with their bow doors open. Warning lights had been requested to ensure that the status of the bow doors was known on the bridge. These factors appear to have been ignored by the management in the company. If they had been acted on, then the disaster might have been avoided (Boyd, 1989).

The Hidden Report (1989) provides a comparable account of the factors contributing to the Clapham Junction rail disaster. In this case two trains collided causing thirty-five deaths and five-hundred injuries. The single engineer whose bad practice resulted in the disaster immediately admitted his guilt; however, the report also found a culture in which bad engineering practice was far from unusual. A corporate culture existed which allowed any engineer to ignore safety standards and, furthermore, permitted this to go unchecked. The only unusual aspect of the circumstances was that it ended in disaster.

In 1977, a survey of business attitudes found some disturbing reports concerning the moral climate of US business (Brenner and Molander, 1977). About two-thirds of the one-thousand-two-hundred respondents reported that unethical activities had become routine and generally accepted practices in their industry. The authors of this survey concluded by stating that organizational loyalty tends to inhibit an employee's perception of ethical dilemmas. The respondents gave two main reasons for this unethical climate. The most common reason given was that superiors within the company did not want to know how results were obtained just as long as the desired outcome was achieved. Also, many respondents (43%) believed that competition was stiffer than ever and so they felt pressures to resort to shady practices which they considered necessary for survival. Similarly, over twelve percent of respondents to a survey of Canadian industries reported that unethical practices were a normal part of doing business (Bird, Waters, Chant, 1986).

How can a corporate code of ethics stop these situations from developing? What effect, if any, might a corporate code have on the institutional roots of unethical behaviour? Before replying to these questions, the institutional roots of unethical behaviour must be discussed more thoroughly. Surely, it is the individual who chooses to behave unethically. Can a situation itself demand or provoke irresponsible behaviour? A few notable examples can illustrate where, in fact, this does appear to be the case.

### **5.2.1 The Organization of Irresponsibility**

The first example of an organizational structure that may lead people to act irresponsibly is that of crowd behaviour. Aldous Huxley observed that being part of a crowd can reduce one's sense of personal responsibility (Huxley,

1952). This is demonstrated by the ease with which an individual is raised to a state of hysteria as one of the crowd. Otherwise moderate individuals can become excited and aggressive under the influence of crowd delirium. This is not an uncommon feature of political rallies or even pop concerts. This example illustrates how the structural characteristics of a group can have some dramatic psychological effects on its individual members.

Another example which illustrates the institutional roots of unethical behaviour is the *Tragedy of the Commons* (Hardin, 1968). In this case the rationality of the organization does not alter the individual's consciousness; the rationality simply becomes inappropriate for changing social circumstances. The scenario begins where a group of herdsmen keep cattle on a common pasture. Each herdsman has the right to graze his herd on the commons, and the group shares the minimal costs of maintaining the pasture. The community survives in apparent harmony so long as the total number of cattle is below the carrying capacity of the commons. This balance is traditionally ensured by poaching, disease, etcetera. However, as soon as social stability is reached the traditional rationality of the commons leads to disaster. Each herdsman believes he will benefit for each extra beast in his herd because the costs of grazing every extra beast is spread over all the herdsmen. Thus, acting in rational self-interest, each herdsman will seek to expand his herd as rapidly as possible, which eventually leads to overgrazing and the eventual destruction of the commons. Thus, the traditional rationality of the commons ensures that the herdsmen will destroy their own livelihood when the social circumstances change. No one in particular is to blame, although all the herdsmen may be held responsible. This example shows that it does not take ill intentions to create a culture of irresponsibility.

Another form of group rationality which leads to very poor collective decisions has been defined by the term "Groupthink" (Janis, 1982). In such groups criticism is suppressed and group cohesion is made supreme. Too great a concern for the approval or disapproval of one's peers and leaders lies at the root of this problem. The views of outsiders are stereotyped, policy assumptions go unchallenged, and the illusion of unanimity is maintained through fear of disapproval. This theory is important to business ethics because it describes group structures which can lead to uncritical and unethical decisions (Sims, 1992). The theory of Groupthink is limited insofar as it focuses only on the instrumental features of decision making and neglects the ideological and emancipatory implications of moral choices (Sloan, 1989; Chapter Eight).

It may appear that these examples are not applicable to the business context; nevertheless, comparable features do exist throughout business life. In fact, Mark Pastin (1986) has suggested that the problem of the commons is the example par excellence of how unethical situations arise within business. All of the above accounts provide structural descriptions of the conditions for irresponsible and unethical group behaviour. But, whereas Huxley's example emphasized the psychological state of those involved, Hardin's emphasized the physical structure of the organization. Some likely examples of these will now be-discussed in the light of this distinction.

### **5.2.2 The Determinants of Irresponsible Business**

Are there certain features of business organizations which predispose their members to behave unethically? Research suggests that some organizations are more likely to violate laws than others. Organizational characteristics which

are positively related to illegality include environmental munificence, environmental dynamism, firm size, the type of industry, and a history of previous violations (Baucus and Near, 1991). The relationship between corporate crime and these characteristics there is not precisely clear although they much indicate that opportunities exist to commit crime and there some pressures to do so.

The criminologist, Edwin Sutherland, was the first to recognize corporate crime as a distinct social problem (1949, 1945). He moved away from the traditional studies of street crime and its associations with the underprivileged, and exposed contemporary corporate life as a potentially corrupting realm of human activity. Sutherland found that, opportunities exist to commit crime in a corporation where the risks of being found out and prosecuted are very low. He also found that even when white collar criminals were discovered, they were likely to be treated with great leniency by the legal system.

Corporations appear to experience a degree of legal immunity (Sutherland, 1945). To begin with, the anonymity of persons in large corporations makes the location of responsibility for corporate activities very difficult. Outsiders and even insiders often do not know who to blame for corporate misdeeds. Corporate members have an economic rationale to excuse their behaviour, and therefore, it is difficult to establish criminal intent for corporate misdeeds. Also, judges tend to be confident that white collar offenders will reform as a result of mild pressures. In many cases corporate crimes may go completely undetected because corporations tend to choose victims who are either underprivileged, unaware, or scattered. Such victims are least likely to retaliate. Also, due to their immense power some corporations are able to exploit areas of legislation which are unclear, and sometimes these giant corporations may use their power to directly influence the legal process.

The physical characteristics of the production process can also be linked to irresponsible work practices. Alienation at work may be a fundamental element in the development of corporate disasters (Jones, 1988). Jones has convincingly argued for this point by taking the Union Carbide Disaster at Bhopal as a case study. The monitoring of the production processes in this chemical factory was extremely mundane and tedious. Consequently, these procedures tended to be carried out with very little commitment or interest, which bred working practices where negligence was the norm. Eventually such negligence had horrifying consequences, when a chemical leak produced a gas cloud which maimed and killed thousands of the surrounding villagers.

Alienation has arisen as a consequence of the division of labour and bureaucratization of work. When organizations are structured on the assumption that human beings are machine-like, purely a means to an end, it is hardly surprising that these forms of organization have given rise to some objectionable social consequences. But the consequences of alienating working practices are not merely restricted to an unfulfilling working life; as Jones (1988) has pointed out, under the current organization of industrial capitalism, accidents will happen.

### **5.2.3 The Rationalization of Irresponsibility**

Irresponsible and unethical companies are supported by a culture of ambiguity and rationalization. Particular vocabularies can develop within an institution as it evolves, and these provide the rationalizations for the values and norms of institutional life (Mills, 1940). In this way patterns of behaviour are driven by the very language which is employed within an organization.

Five types of rationalization are common to deviant subcultures within society: the denial of responsibility, the denial of injury, the denial of a victim, the condemnation of the condemners, and the appeal to a higher loyalty (Matza and Sykes, 1969). Evidence exists that such vocabularies are also prevalent within business institutions (Gellerman, 1986; Cressey, 1953; Sz wajkowski, 1992, 1985). Business persons commonly use rationalizations to justify their questionable behaviour, for example they might claim that: the activity is not really immoral or illegal; it is in the individual's or corporation's best interest; it will never be found out; the company will condone the activity if it helps the company (Gellerman, 1986). Managers are more likely to supply excuses and rationalizations for questionable conduct than to concede that it is wrong (Konovsky and Jaster, 1989).

Rationalizations are an essential part of the process whereby a person comes to act unethically; they are not simply used as excuses but predispose a person to act unethically. A case study of embezzlement has demonstrated how rationalization is necessary in developing the motives to break the law (Cressey, 1953). Rationalizations are not invented solely by the embezzler; they are present in the surrounding cultural ideologies, and they must be learned before wrong-doing is perceived as legitimate. The vocabulary containing these rationalizations gives the wrong-doer a sense of group support and sanction. Cressey (1953) found that the rationalization process was used by embezzlers not only to justify their crimes to others, but also it was essential in forming the initial motives favourable to criminal behaviour. Thus, business vocabularies of motive are both a symptom and a cause of irresponsible organizational cultures.

### 5.3 Corporate Codes and the Moral Order

The above discussion suggests that complex structural, psychological and ideological problems underlie unethical business practices. How can a few words on a page, formal statements of value and practices, address the sheer complexity of these problems?

After an extensive survey of UK company codes Simon Webley of the Institute of Business Ethics assured us that,

"Published codes can also serve as an effective antidote to the type of informal culture, not always in conformity with company policy, which can develop in any organization and which can be detrimental to the company's long-term interests." (Webley, 1992, p.21)

Here is an expression of great faith in formal codes and the moral regulation of corporate culture. This statement about company codes of ethics expounds the same rationale as the codes themselves. It appeals ultimately to company interests as the rationale for ethical behaviour, but is this faith well placed? Several reasons can be given which may lead us to believe otherwise.

Corporate codes do not necessarily relieve organizational pressures to act unethically (Waters et al., 1986). All the improvements in the ethical climate of US business have largely been attributed to pressures external to the corporation, such as new legislation (Cressey and Moore, 1983). Indeed, some change in the law seems to be the best way to prompt changes in corporate codes. Those issues which are addressed within codes tend never to arise from a company's own struggle over the ethical issues associated with their industry



(Holt, 1980). The rationality of the market economy provides one explanation for the apparently passive role of corporate codes; that is, those firms which voluntarily place themselves under tighter constraints might suffer from a competitive disadvantage if only a few firms in their industry implement them (Bowie, 1990; Maitland, 1988). Effectively, the market penalizes those firms which attempt to improve their ethical standards. External pressures such as legislation and consumer pressure are needed so that all firms in an industry come under pressure for ethical change. Without the external prompting from the law corporate codes will most likely atrophy, because the structure and culture of organizations do not appear to have changed as a result of implementing corporate codes of ethics alone.

In the face of these deeper social movements, codes will appear to be quite ineffectual. Indeed, one survey has found that a firm's size and industry have a far greater bearing on its criminal history than the presence or absence of a code of ethics (Mathews, 1987). Codes can do nothing to change these unyielding features. Nor can codes overcome the problems presented by the corporation's privileged social position. The inadequacies of legal agencies serves to emphasize the need for better corporate self-regulation, but it does not provide any further stimulus for corporations to do so.

The organizational culture itself presents some insurmountable problems for the implementation of ethical codes. These problems have been summarized in the following observation made by P.D. Anthony,

"the unofficial network is more of a moral order than the official hierarchy that seeks to impose moral duty upon its subordinates." (Anthony, 1986, p.186-187)

Thus, even where codes provide for ethical standards which are more stringent than the inherited practices, these codes will be probably be ignored. As a group company members will not be committed to a code where it conflicts with the existing values of that group. Lack of commitment is central to the problem of self-policing. This can be clearly illustrated by referring back to the inquiries into corporate disasters. For example, in the case of the Clapham Junction rail disaster formal engineering standards already existed to ensure safety. Despite these standards, the culture in which the engineer worked allowed him to ignore them, and what is more, in that culture this negligence was allowed to go unchecked. The Hidden Report found that the errors were neither confined to this one negligent person, nor were they unusual. The report stated that the errors that caused the accident were,

"part of a widespread way of working, almost a school of thought, at technician, senior technician, and even supervisor level within the S and T Department [Signal and Telecommunications] of Southern Region B.R." (Hidden, p.85)

Similarly, the existing safety codes were ignored in the cases of the Zeebrugge ferry disaster, the Chernobyl nuclear power station disaster, and the Union Carbide disaster at Bhopal.

This does not imply that formal codes are completely ineffectual, but it does illustrate an important limitation - that codes do not and cannot remove the institutional roots of unethical behaviour in corporations. Consequently, codes are not able to challenge institutionalized unethical behaviour, since no commitment will exist within an organization to self-police a code that challenges such practices. Therefore, corporate codes are very limited in their role as a mechanism for moral regulation.

By means of reinforcement contingencies, that is rewards and punishments, codes can add to the institutional features of the corporate culture to deter unethical behaviour. But they still do not remove the pressures for unethical behaviour, they simply add more in an attempt to counter others. This might only increase the moral tension and stress already experienced by business persons (Waters and Bird, 1987). Again, there will be little motivation for company employees to enforce such a code.

The upshot of these observations is that formal codes of ethics do not provide a sufficient vehicle for moral responsibility within organizations. The value of a code arises from its symbolic significance to the various corporate stakeholders. This limitation can be clearly illustrated with reference to the actual use of a code by the Johnson and Johnson Corporation.

The Credo of the Johnson and Johnson corporation has been acclaimed for reinforcing an ethical corporate culture (Hosmer, 1987). The ethical commitment of this company need not be doubted, as demonstrated throughout the company's history. One particular crisis can be taken as a case in point, where James Barker, the CEO, stated that the company credo was instrumental in guiding management's decisions during the Tylenol crisis in 1982. Tylenol was a non-prescription drug which was found to have been deliberately poisoned in the Chicago area of the US, where this tampering caused the death of four people. The company immediately spent one-hundred-million dollars removing the drug from the shelves of every retailer in the country which sold it.

It could be that the credo accurately reflects the Johnson and Johnson corporate culture. As such, the decision-making process followed in the crisis

was already embedded in the culture; it was not simply a matter of following the code. If the code had not reflected the corporate culture, then it would not have been a consideration in the crisis. Furthermore, the so-called following of the credo was purely reactionary. It could not address the institutional roots which might have lead to that incident or any other. In fact some years before, the possibility of such a crisis had been raised by a consultant for the McNeil Laboratories but this was dismissed at the time as a superfluous consideration (Pastin, 1986).

In order to fully understand why codes are implemented inadequately we must trace their development back to the formulation process.

#### **5.4 Code Formulation: What makes a fitting code?**

According to the view of organizational life presented above, formal rules play a subordinate role to politics, power and the informal moral order. Therefore, the informal moral order must be reflected in the formal code of ethics if the code is to refer to the social reality experienced by its members. Codes will not solve our moral problems simply by stating certain prohibitions and guidelines without regard to the particular culture and circumstances of the organization. This has been recognized by some theorists who suggest that codes must 'fit' into the existing corporate culture to be effective (Weber, 1990; Weller, 1988; Trevino, 1986). Trevino has pointed out that,

"Where they are effective in guiding behavior, it is likely that codes of ethics are a reflection and manifestation of organization culture." (1986, p.613)

A code will not be effective where organizational pressures exist which contradict it. These pressures may arise from many areas such as an alienated workforce, the political network of the company, or competition with other firms. The corporate culture can be considered to be the fundamental vehicle for business values (Weber, 1990). Consequently, all ethical change strategies must build on this vehicle in order to have any effect. The success of a company code is utterly dependent on the cooperation of the organization's members. If the corporate code is seen to express values contrary to those held by the corporate members then, naturally, the members will not be enthusiastic about its strict enforcement. This limitation has been explicitly recognized in the text of one US corporate code, which states that,

"The Credo is designed to reinforce and enhance Security Pacific's culture - not change it... The 'difference' that we hope the Credo will make will be that it will reinforce the values and good feelings of our long, respected heritage. And, it will ensure our continued success and winning reputation."

(Conference Board, 1987, p.21)

This code explicitly recognizes that corporate codes are somehow limited as a change agent. They are limited by the very culture which spawns them. Of course, the credo above only sheds an optimistic light on this limitation of codes, which is by no means the whole story.

Over two thousand years ago Plato proposed that a code of ethics could only be implemented justly by moral guardians. These guardians must be raised as philosopher kings, paragons of virtue with none of the prejudices typical in everyday life. However, it would be rather simple-minded to depend upon the infallibility of those who may elect themselves to formulate and enforce

corporate codes of ethics in modern business. Already, company codes have been shown to be permeated with the values and power relations which make up the corporate culture; they are bound to be as political as they are ethical (Chapter Three). The present point serves to illustrate how the ideologies which underlie company codes also impact on their effectiveness.

Now, if a code is to regulate and improve the moral climate of a corporation it must be effective. And to be effective those who police the code must be committed to enforcing its rulings. But how could a company code that is self-policed also be critical of the corporate culture from which it originated? A few simple examples will be used illustrate this limitation of corporate codes.

The Scott Bader Company is unusual since it was founded on the deeply religious principles of the Quakers. This is evident in its corporate code of ethics. For instance, an extract from the company's Articles of Association outlines a policy to,

"Limit the products of the Company to those beneficial to our fellow men, in particular excluding any products for the specific purposes of manufacturing weapons of war..." (Melrose-Woodman and Kverndal, p.34)

Since the Quakers are pacifists it is not surprising that their code of ethics contains such a rule. In fact, it would be impossible for their corporate code of ethics to challenge this fundamental part of their culture. The code is the reflection of their culture not an adversary.

This limitation becomes most apparent where some social controversy exists, as in the case of the tobacco industry. Smoking tobacco has been a widely

accepted practice for many years. However, since evidence has emerged linking smoking to thousands of deaths every year, this habit has become a subject of controversy. Recently, advertizing tobacco on television and the cinema has been banned, and advertizing cigarettes is soon to be banned altogether in the European Community. Also, there is a widening ban on smoking in public places. However, it remains unlikely that a tobacco company's corporate code would ever challenge the appropriateness of producing cigarettes.

The apologetic tone of company codes is quite apparent in their texts. For example, both tobacco companies which responded to the present survey provided moral justifications for their position (Appendix B). In its annual report one of the companies went as far as to question the morality of the EC ban on advertizing tobacco. The EC ban was stated to, "run counter to the free and open competition that should be the Community's aim." (*Rothman's International PLC Annual Report*). Furthermore, the company points out that many third-world countries rely on tobacco exports to support their trading power and local employment. These companies also have policies concerning employee rights and environmental issues.

The other tobacco company which responded to the survey stated that it is continuing research into what it terms "the current medical controversy on smoking." (B.T.R. Industries PLC) However, there is some evidence that this research is biased and censored by the industry (BBC1, *Panorama*, May 1993). The evidence suggests that over a period of many years the negative results of this research have been suppressed by the tobacco companies. It is in this respect that these ethical policies are unmasked as merely public relations exercises.

The tobacco company is inherently restricted in its thought by its cultural rationalizations, as is every other organization. These companies are quite able to adopt a sound ethical position in their policies, which will serve to justify their operations to their own members and to outside interests. For example, the company philosophy might emphasize a free market doctrine or the right for individuals to choose their own destiny. As in the case of the tobacco companies, people's welfare has been defined in terms of their right to choose, rather than their state of health. Their codes cannot challenge the ethics of tobacco production since they come from a culture where rationalizations already exist which legitimate this.

This is not to dispute the legitimacy of such justifications. Nevertheless, areas of social controversy such as tobacco, alcohol and arms production can highlight the ways in which a corporate culture must constrain its own formal code of ethics. The organization can be morally challenged from outside, but it cannot be challenged by its own code of ethics; the code must necessarily play an apologetic role with regard to the organization which enforces it. It would appear then, that all codes must seek to legitimize the organization's culture and activities, and that codes cannot present a challenge an organization's institutionalized practices. Thus, the corporate culture provides the vehicle for implementing a corporate code, but at the same time, it delineates the code's limitations.

### **5.5 A Cautionary Note: Scapegoating**

On reflecting on the above observations, a cautionary note may be taken from Nietzsche who once criticized moral codes on account that,



"What we do is never understood, but always merely praised and blamed." (1977, p.280)

Likewise, this criticism may be applied to company codes of ethics. That is, their main function within business must be in apportioning praise or blame, rather than in striving for an understanding of the behaviours that have been thus labelled.

A potential danger of corporate codes arises from the kind of limitations described above. Codes address only the specific unethical acts which are performed by particular individuals. Hence, they may be used to divert attention away from the institutional roots of irresponsible behaviour onto the individual offender. In this way the individual can be made a scapegoat for a whole culture of irresponsibility.

Take for example the case of an organization which is built upon extremely alienating working practices. In such circumstances, the small scale theft of company property may provide an emotional outlet for alienated workers (Mars, 1985). The taking of company property is not valued in itself, but as a game; it is a creative and emotional outlet for frustrated workers. Of course, where alienation is extreme a worker might steal due to feelings of resentment towards the company. Under an enforced corporate code this behaviour would certainly be punished, where the individual will be treated as a delinquent within a normal organization. This avoids consideration that the organization might be delinquent, and the individual's reaction to it normal; the offender is in effect a scapegoat for the organization.

This is supported by the finding that in the US one of the main benefits expected to arise from code adoption is legal protection for the company and

its managers (Opinion Research Corporation, 1980). In fact, many articles on company codes recommend the use of sanctions, which further intensifies the focus upon the individual offender (Manley, 1992; Molander, 1987; Weller, 1988). Therefore, it may be just as well that there is little evidence of their application in practice (Chapter Four). To expect that the provision of sanctions will improve the ethical climate of a company relies on a rather naive understanding of the moral problems experienced within business. If sanctions are to be used fairly then, at least, they must be accompanied by a critical debate to account for the complexity of the ethical concerns involved and an appeal mechanism (see below under Recommendations).

One need not dispute the fact that codes can play an important role in informing the customers, suppliers and (potential) employees about the ethical position of the firm. However, the relevance and meaning of the norms and values expressed in a code must be subject to criticism and debate (Chapter Three). Codes set out official policy concerning corporate social responsibility, and as such there is a danger that the horizon of moral debate within companies will be restricted to these policies. This is a grave limitation considering that loyalty to the company is often given as the reason for unethical business practices (Gellerman, 1986; Brenner and Molander, 1977). A company code must not end up as a symbol for this kind of dogmatic application of rules and uncritical loyalty to the company. Granted, this is unlikely to be a danger at present, since there appears to be little evidence of much commitment to company codes of ethics whatsoever (Chapter Four).

These observations closely reflect the findings of some early studies in the theory of organizations (Gouldner, 1954; Selznick, 1948). The effect of bureaucratic rules is not only to mitigate some tensions, but to conceal other tensions and allow them to persist. Gouldner (1954) has observed that the

formal rules of an organization do little to modify attitudes towards work, and act only as guidelines for behaviour. Thus rules do not remove the problems they are designed to deal with. This is most apparent where punishments are attached to the prescriptions, and least apparent where the rule represents beliefs already held by the workers.

Company codes are dangerous to the extent to which they disseminate a particular view of ethics and corporate social responsibility - a view that may side step many important moral issues within business. The neglect of the institutional features of organizations which contribute to irresponsible behaviour is embedded in deep social undercurrents. For example, under capitalism alienation maybe legitimated through a technological imperative (Giddens, 1985), whereas any resulting destruction of company property is not. Under managerialism whistleblowing may be strongly discouraged regardless of whether or not it is the public interest. Both of these ideologies have been shown to underlie corporate codes of ethics (Chapter Three); and yet both are interwoven with irresponsible work practices.

## **5.6 Implementation Recommendations**

This chapter has attempted to show that a company code of ethics can only provide a very limited means for regulating business ethics. Organizational change in moral terms is bounded by wider social structures, and in this regard a company code of ethics cannot be expected to have much effect. Therefore, any recommendations concerning the implementation of a company code of ethics must be based on a very conservative notion of organizational regulation or reform.

The implementation of a company code of ethics appears to take no account of the institutional structures which may lead to irresponsible working practices. Its use is limited to a largely apologetic role in relation to company activities. At worst, the implementation of a code can focus attention away from these structures onto individual scapegoats. In this light, company codes appear to be a rather inadequate approach to implementing business ethics, and the repeated demand for the use of sanctions to support them may be misguided. Instead the effects of institutional structures within business must be given due attention. Janis (1982) has proposed that each decision making group within an organization should have a formal position for a devil's advocate to counter the effects of Groupthink. Others have proposed more far reaching reforms which concern the way moral problems arise and circulate within organizations (Bowen and Power, 1993; Nielson, 1993; Payne, 1991). These reforms specifically include the establishment of forums within the company for debating the moral concerns of employees. Such measures go far beyond the scope of a company code of ethics, and these proposals will be returned to in Part Two of this thesis with reference to the design of an alternative form of company code which can be used to address these institutionalized problems.

Furthermore, the need for consultation with stakeholder groups external to the company cannot be overemphasized. These groups may provide a rich source of moral criticism which can be viewed in stark contrast to the apologetic ethic represented by a company code of ethics. These groups may be in a better position to highlight any specific institutional structures which may give rise to irresponsible working practices. Some companies already consult with the relevant regulatory agencies, professional bodies and trade unions, which are embedded within the business community. Many companies have ethical policies which refer to these kind of relationships, for example, Mobil Oil has a policy which discusses cooperation with Her Majesty's Inspectorate of

Pollution and the National Rivers Association. And, as noted previously, a number of codes make explicit reference to the legislation and international codes of conduct which may impinge on their business activities.

Companies might also find a rich source of ethical criticism from their local community and certain pressure groups who can act as devils advocates. A large proportion of the ethical policies of UK companies already make reference to community relations, including charitable activities, the secondment of employees to community projects, the sponsorship of sports and the arts, and the regeneration of inner city areas (Appendix B). Relations with particular pressure groups, however, may be a more sensitive concern. As Sir Adrian Cadbury has pointed out, whereas pressure groups can be single minded, managers must (or should) take account of a broad range of interests (Cadbury, 1987). Certainly the pressure groups themselves find their relationship with business problematic, as is aptly demonstrated by Greenpeace which refuses to take any donations from any business or government. However, these relations need not be entirely oppositional, for instance Friends of the Earth and The World Wide Fund for Nature do accept company sponsors (Forrester, 1990), and have policies to work more closely with the business community. An exceptional example of cooperation between pressure groups and business can be found in the Coop Bank which restricts its business dealings based on a list of companies compiled by Amnesty International (*Yorkshire Post*, 2nd May 1992).

Earlier in this chapter it was suggested that the effectiveness of a company code of ethics may be inextricably bound up with the fairness of its implementation. This arises out of the fact that company codes of ethics are self-enforced voluntary codes. A concern for code effectiveness must not override any moral

considerations lest it be reduced to an exercise in the manipulation of the employees or any other stakeholders.

A paradox lies at the heart of implementing business ethics through the use of company codes of ethics. On the one hand, it would seem that a code must reflect the existing culture of the company if it is to be enforced (Weber, 1990; Trevino, 1986). But on the other hand, how can the code generate a genuine change in business practices if it merely reflects the existing company culture? This has been presented as a significant limitation of company codes throughout this chapter. Any cultural changes must build upon the existing culture and therefore must take place within the particular constraints of that culture.

In order to address the limitations of the corporate culture, several measures can be used to support code implementation (Manley, 1992; Weber, 1990; Winfield, 1990; Murphy, 1988). Some research has suggested that steps can be taken to make people more amenable to organizational change, such as the following:

- 1) Identify and expose the (moral) problems of the current organization.
- 2) Ask employees to participate in the imminent change and provide some input into code formulation or revision.
- 3) Reward employees for cooperating in the implementation process.
- 4) Prepare employees for any revision of the code. (Manley, 1992; Nadler, 1983)

The danger present in this process is that the views of employees are seen to be manipulated in line with a code which has not itself been formulated with any respect for these views. This is certainly suggested by the paternal tone of the third recommendation in the above list. One of the most extensive works on company codes of ethics also recommends that,

"Important leaders within the firm can create additional support for the code. They can persuade employees and other managers that the code is being implemented in the best interest of the firm" (Manley, 1992, p.86)

This advice is focused on how a company code might be *managed*, but its ethical tone remains ambiguous. The extent to which it is manipulative or sincerely concerned with the interests of all employees is left unclear. Without some sensitivity to the views of those concerned, the enforcers of a code can be accused of ignoring many moral conflicts which exist within business organizations. Surely the best way to ensure that employees and other managers perceive the code as in their interests is if they play an equal role in its formulation? Representatives from any level of the organization must not be excluded from this process if it is to truly represent their interests.

This reawakens the moral concerns which were introduced in Chapter Three surrounding the implementation of company codes. The formulation of a company code must not be "managed" to the extent that its ethical element is lost. It may be true that a code must be accepted by the employees if it is to work, but this is a very passive description of the role that employees play in implementing their company code. It does not capture the moral significance of participation in code formulation. Typical of many business ethics texts

(Clutterbuck et al., 1992; Carmichael and Drummond, 1989; Manley, 1992; Peters and Waterman, 1982; Weller, 1988), the authors remain ambiguous about the motives for change, whether they arise out of the need to impose values down the organization or whether they arise out of a respect for company members, their interests and their concerns.

The formulation process is crucial in implementing change, it is the moment at which commitment to the code can be morally and effectively engendered. At this point ethical issues can be raised and discussed from which the code can be constructed, and from which change may arise. Undoubtedly some issues will be acceptable to all members of the organization, such as improvements in the working environment and pollution control. However, many important ethical concerns might be passed over if it was assumed that there was no moral disagreement within the corporate culture, for example, employees might be deeply concerned about their job security, or smoking at the workplace, or even the company's marketing and advertising strategy (take for instance, Nestle's distribution of powdered milk in the Third World). Issues such as these may remain suppressed and undebated due to organizational power and politics.

A candid and open company culture is therefore a desirable prerequisite in order to fairly implement a company code of ethics (Winfield, 1990). In a rigid organizational hierarchy employees might be afraid to air their views (Argyris, 1990; Serpa, 1985). In such an organization, a code would not adequately reflect the views and interests of its members, who would then feel little commitment to its rulings. The effectiveness of a company code of ethics is thus inextricably bound up with a concern for its just implementation.



Some procedures designed to engender an open culture, such as open door policies and forums for ethical debate can be outlined within a code of ethics (Chapter Three). These approaches implicitly embody some respect to those lower in the company hierarchy, whereas top-down approaches largely ignore the moral agency of those lower in the company hierarchy.

In itself, the process of formulating an ethical code can provide the platform for change. But once the formulation process is finished this generative process comes to an end. In order to ensure that a code's rulings remain contemporary it must be constantly challenged and supported. This demonstrates the importance of complementary measures such as ethical forums, committees, and reporting channels in the implementation of a company code, which are essential to sustain an awareness of ethical issues within the company (Chapter Four).

Many of these recommendations for company codes of ethics have already been discussed in a number of previous articles. However, here they have been placed in a context which explains their limitations. Below is a summary of the recommendations which have been made so far in Part One of this Thesis.

## A Summary of the Implementation Methodology

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### AIMS

- \* The Moral Regulation of Business

### FORMULATION STAGE

- \* Ethics training programmes (for all employees)
- \* Participation in code drafting (Representation from all of the stakeholder groups)
- \* Set out clear priorities
- \* Justify the rules
- \* Demonstrate commitment from the top of the company

### ENFORCEMENT STAGE

- \* Dissemination to all employees and stakeholder groups
  - \* Set out reporting channels:
    - i) Open Door policy
    - ii) Confidentiality
    - iii) Open forums for debate
  - \* Set out disciplinary measures:
    - i) Punitive (Which offences will be punished? How?)
    - ii) Non-punitive (Reformation of employees)
  - \* Perform regular audit of code and its enforcement
- 

figure 1.

These recommendations will by no means address all the limitations of company codes of ethics. In order to further explore the potential of company codes of ethics a different tack must be taken. This entails the development of an alternative form of company code of ethics and will be the concern of the following chapter which opens Part Two of this thesis.

## **Summary and Conclusions**

Corporate culture provides both the vehicle and the limitations for the implementation of company codes. To begin with codes cannot be used to challenge the basic company culture, in regard to which they must necessarily serve an apologetic end. Alone they do not, and cannot, address the complex institutional, psychological, and ideological problems which underlie unethical business practices. Accordingly they will be somewhat ineffective in addressing any irresponsible business practices which have become institutionalized.

This illustrates the need for ethical change mechanisms external to the firm such as legislation and the consumerist and environmental pressure groups. These mechanisms can provide legal and economic support from outside business which subjects all firms to a critique of their working practices, a critique which may be repressed within the business community itself.

Internal company measures can also be taken to overcome the limitations of company codes of ethics. These measures must be aimed at creating an open and candid culture, one in which ethical views can be debated without fear of censure or retaliation. An open climate is necessary in order to overcome the limitations inherent in company codes as a mechanism for the moral regulation

of business. Furthermore, the code itself must be developed in a rigorous and fair manner to be effective in both moral and motivational terms.

In Part Two of this thesis an alternative form of company code will be developed in order to address the moral limitations of orthodox company codes of ethics.

# *Part Two*

## CHAPTER SIX

### THE MORAL LIMITATIONS OF COMPANY

#### CODES OF ETHICS

"We understand only when we understand the question to which something is the answer" (Gadamer, 1975)

This chapter will explore the assumptions which underlie the general format of company codes of ethics. Following from this a proposal for an alternative approach to code design will be made, based on a more comprehensive understanding of morality. The argument begins with an overview of the existing discussions concerning the moral grounds for company codes of ethics. This will surface a concern that company codes of ethics represent a very limited view of morality. This limitation is highlighted by an ambiguity surrounding the nature of morality, that is, whether morality originates in the individual or in society. As a social phenomenon morality concerns itself with the prevailing norms and values of society and the various methods by which these are disseminated. However, this approach may not consider the significance of the moral authority of the individual, and their capacity to criticize existing social norms and make their own moral choices.

Orthodox company codes of ethics will be shown to be representative of a social conception of morality. From this perspective, a company code finds legitimacy in the contemporary social norms and mores. In other words, the

apparent aim of these codes is to reconcile the pursuit of company goals with other social interests.

In contrast to the orthodox code, an alternative form of code will be proposed which focuses on the process of moral inquiry itself rather than any specific normative content. This form of code does not rely on the moral certainty characterized by the orthodox form of code. Where uncertainty exists concerning the right course of action only moral inquiry can help, and it is this attitude that the alternative code aims to foster. Although the two forms of code emphasize different conceptions of morality they may be used to complement each other.

## **6.1 Company Codes and Moral Theory**

Some work already exists which examines the moral principles upon which business codes might be based. For example, one might compare utilitarian principles with contractarian principles as a framework for a code of ethics (Cederblom and Dougherty, 1990). Under a utilitarian framework the dictates of a company code must lead to the greatest social utility, whereas within a contractarian framework a company code would be used to represent fair business agreements. In practice business codes contain a mixture of principles, some based on fairness and others on some conception of social utility. It may not be necessary that one approach be favoured over another.

Attempts have been made to prove the superiority of either Kantian or utilitarian ethics regarding business codes of ethics. Rule-utilitarian principles can be easily represented in a formal document and it has been suggested that they are best suited to business codes of ethics since utilitarianism closely

reflects the consequential reasoning prevalent in the business community (Starr, 1983). This is a rather naive and oversimplified account of both utilitarianism and the moral reasoning of business persons. Starr does not even compare utilitarianism explicitly with other normative moral theories.

Alternatively a Kantian approach to moral theory may be considered more appropriate to the implementation of company codes of ethics (L'Etang, 1992). The strength of this approach is that it highlights the moral problems surrounding code formulation. Without due regard for the views and interests of all company employees the code may become mere window-dressing for the legitimization of a corporate ideology (Chapter Three).

It may not be possible to ascertain the superiority of either deontological or consequentialist reasoning, because there are no further moral grounds on which such a choice could be made (Toulmin, 1950). The various moral systems provide different grounds for evaluating moral behaviour, an attempt to judge the different systems in moral terms would itself require an appeal to one of them. There is no need for us to follow one approach exclusively any more than the other.

On the whole, these previous analyses of company codes of ethics fail to highlight the limited view of morality which is reflected in the very structure of these codes. The codes are limited by the actual form they take regardless of the kind of reasoning used in their formulation. The traditional format is not able to adequately cover the kinds of moral problems faced within a company. Traditionally, company codes are highly regulatory in nature, where the idea of moral autonomy has been a somewhat neglected principle in the existing codes. Yet, the concept of autonomy has been fundamental to so many diverse understandings of morality including, utilitarianism, existentialism and of



course, Kant's deontology. Autonomy has been posited as a necessary condition for morality by Kant in his *Groundwork for a Metaphysics of Morals* (1785). At the same time it can also be considered to be an aim of morality in the terms of freedom and liberty (Devlin, 1965; Kant, 1785; Mill, 1863).

It has already been argued that if a company code is to be fair, the views of all employees must be equally represented in its formulation (L'Etang, 1992). This is the only way the code can truly claim to be moral and reflect the goodwill of its initiators. The argument developed in this chapter carries this logic a step further, why not embody the idea of moral autonomy and respect for persons in the very decision procedures set out in the company code? This question underlies the development of an alternative form of company code.

The concept of morality reflected in the format of traditional company codes is very narrow. This will be illustrated by examining the conditions for the moral justification of company codes of ethics. During the course of this analysis an alternative form of company code will be developed. The proposal of an alternative form of code will attempt to overcome the limitations of the orthodox company code. This alternative form of code will be drawn up as a list of questions rather than commands, which are designed to be characteristic of a just and ethical reasoning process. This code's strength lies in its embodiment of a respect for individual moral agency, and in allowing for moral inquiry where the right course of action is not clear.

Therefore, the movement of this thesis is to embrace a more comprehensive view of morality and the nature of moral problems. The alternative code format will be developed to highlight the moral limitations of the traditional codes. There is no reason why traditional and alternative forms of company

code cannot be used complementarily; both will be shown to have their moral limitations.

## **6.2 Morality: The Society and the Individual**

Codes to guide human conduct are as old as society itself. Over the last two and a half thousand years philosophers have pondered on the meaning of morality and have given various accounts of the nature of good and evil (Aristotle, 1976; Kant, 1948; Nietzsche, 1973). As global communication has developed, societies have been challenged when confronted by cultures holding different moral codes. Not only do different social cultures disagree on what is good but moral controversy frequently occurs between members of the same society. In a nutshell, the human race throughout its history has been unable to agree on the content of morality, either in practice or in theory. So rather than adopt a single value position, it may prove fruitful to explore some of the issues which surround the process of moral inquiry.

Simplistically, morality can be described as a prioritizing process. But where do a person's priorities originate? This question surfaces an ambiguity in the nature of morality, which has been particularly apparent in the work of the existentialist philosophers. A general distinction can be made between a 'social morality' and an 'autonomous morality' (Cooper, 1970a). When a person endorses a moral rule of a social group out of habit, fear, indolence, or respect for tradition, this is a social morality. Social morality refers to the expectations that a group has of its members; each role in the social group has its own associated set of rights and responsibilities. In contrast, an autonomous morality refers to the endorsement or rejection of a moral rule after independent critical reflection on that rule, it is chosen independently of the

expectations of others. For example, a person's autonomous morality may be ascetic in nature, where they find meaning in some conception of purification, which is quite different from the prevailing materialist attitudes in society.

Autonomy derives from the Ancient Greek, *auto nomos*, or self law-giving. The moral psychologist, Lawrence Kohlberg, asserted that we become more autonomous as we learn to reason about our relations with other people (Kohlberg, 1981). In particular, he claimed that moral reasoning that was not self-interested was evidence of autonomy, and in this he was following Kant, who believed that the question of autonomy was directly bound up with morality, its relation to freewill and determinism. According to Kant (1785) we were autonomous to the extent that the laws we obeyed were a) determined by our own use of reason, and b) in accordance with the rule of reason, that is, the Categorical Imperative (refer to Chapter One). Indeed, we could only escape the causal determinism of our inclinations through the use of reason. So the use of reason at once ensured our autonomy and our morality.

Kant's concept of autonomy is not without its critics. Hegel (1931) criticized Kant on account that there could be no freedom per se, because one's understanding of freedom would always be relative to a particular social system. Adorno (1973) pointed out the absurdity in Kant's argument because it implied that man was free only insofar as he was obedient and bent himself to the rule of the Categorical Imperative.

The concept of autonomy involves a number of unresolvable philosophical debates, which revolve around the possibility of free will and radical choice. Can a person create some space in which they can make moral choices free from their own prejudices and the dictates of external authorities? Defining autonomy very simply as critical reflection may avoid the problems associated

with freewill and transcendental arguments (Dworkin, 1976). The critique of social morality can be seen as an essential feature of an autonomous morality (Cooper, 1970; Dworkin, 1976; Adorno, 1973; Kohlberg, 1981). Adorno gave an extremely powerful definition of this idea of autonomy when he stated that,

“Freedom means to criticise and change situations not to confirm them by deciding within their coercive structure” (1981, p.226)

However, for the purposes of this chapter, such a radical definition of autonomy will rarely be used. Instead, the idea of autonomy will be used in the more restricted sense of critical self reflection on one’s conduct, on business practices and on social mores. This definition is compatible with both individual and social moral authority. It also allows the validity of traditions in moral life and, to this extent, the pursuit of objectivity. Now the uncertain relationship between the concepts of social and autonomous morality can be explored.

### **6.3 Moral Uncertainty**

Moral tensions can arise when the one's priorities conflict with each other or when they conflict with the priorities of other persons. Sartre (1948) stated that the priorities of social morality are ambiguous and ultimately we must always follow our autonomous choices when faced with a moral dilemma. He provided us with a classic example of this situation taken from an experience in the Second World War when one of his pupils approached him with a painful dilemma. This young man was living alone with his mother, who had already lost one son in action and was estranged from her husband. The remaining son felt torn between looking after his mother and going to fight for the Free

French Forces in England. He could not fulfil one duty without neglecting the other, and in this case there was nothing to tell him which way to decide except his own conscience. Although norms and values may exist as social facts, these can be inconsistent and even contradictory. Once a person becomes aware of such a situation they must consciously choose their own individual morality. Therefore, it would appear that the way a person develops their moral beliefs is an interpretive process; we create our autonomous morality in the light of the prevailing social morality.

Contemporary research into business ethics has indicated that moral dilemmas are a common part of managers' everyday life in business (Waters and Bird, 1987; Brenner and Molander, 1977). In fact, it appears that the responsibilities associated with a person's corporate role can sometimes conflict with other social norms. In such situations how is a person to decide? One Canadian study of managerial ethics has observed that managers experience a condition of 'moral stress' when faced with these dilemmas (Waters and Bird, 1987). In order to minimize this stress they try to reduce their sense of accountability, making it easier for the manager to conform to the requirements of their corporate role. On the one hand, this conformity may be essential to the company as a moral community, but on the other hand, one must be wary that this does not lead to the blind pursuit of company interests. In such cases of conflict, the need for some moral self reflection would appear to be obvious.

In our everyday life we might face two kinds of moral struggle (Dewey and Tufts, 1936). The first is weakness of will where what is right is known but other desires can lead us astray. If this is the case, sanctions or further conditioning can be applied to ensure that people behave rightly. Orthodox company codes are a suitable response to this type of moral problem. The second kind of moral struggle concerns moral dilemmas, where the right course

of action is not obvious. If two values are in conflict or the circumstances are uncertain it may be impossible to know the right course of action. The social morality provides a framework within which moral uncertainty may be experienced; thus the social morality cannot itself be appealed to in order to solve the problem. In these cases, moral inquiry is essential rather than one's quickness in conforming to a rule. Therefore, to address the problems of business ethics we must have an understanding of the form of morality as well as its content.

This opens up many problems for the implementation of business ethics. Is its purpose to address problems of disobedience to social norms, or rather the critique of these social norms, allowing for uncertainty? To what extent should business ethics play an apologetic or a subversive role in relation to business practices (Yeo, 1993)?

#### **6.4 Two Approaches to Business Ethics**

It follows that any notion of ethical improvement will be far from straightforward. One's understanding of ethical improvement hinges on whether one is talking about moral regulation or moral education, terms which are similar but by no means synonymous. A short explanation of the meanings of these terms will demonstrate their significance. The Oxford English Dictionary (1982) states that to regulate is to,

"control by rule, subject to restrictions; moderate, adapt to requirements; alter speed of (machine, clock) so that it may work accurately..."

The roots of this word come from the Latin word, rex - a ruler, sovereign - and the late Latin word, regulare - to keep straight. Thus, the purpose of moral regulation is to ensure that people's behaviour conforms with a system of moral rules (positive facts). The term education has quite different connotations. The Oxford English Dictionary (1982) states that to educate is to,

"give intellectual and moral training to; provide schooling for; train (person, oneself, a physical or mental faculty, to do)..."

The roots of this word come from the Latin word educere - to rear, to lead out. Thus, the primary intention of moral education is progression from something as well as merely conformity to the rules.

How does this apply to the search for methods for moral improvement? Two styles of moral improvement can be derived from the different emphases of regulation and education. Improvement in terms of moral regulation entails the improvement of the systems of control which ensure obedience and conformity to a specific system of moral rules. Whereas improvement in terms of moral education entails the development of the processes which lead a person to higher levels of moral awareness. This does not emphasize obedience but, on the contrary, critical independence of the regulatory system. Apparently there is some degree of contradiction between these two styles, arising from the tensions between an autonomous and social morality.

Clearly moral regulation is central to the concept of social morality whereas moral education and development is central to the concept of autonomous morality. The processes used to promote a social morality are of a regulatory style, whereas the processes used to promote an autonomous morality are of an educational style. A brief discussion of these different processes should make

the distinction clearer and enable us to see the limitations of each style in terms of the other.

#### **6.4.1 Moral Regulation**

Any system of regulation may be comprised of two elements: a set of rules which are given, and a corrective mechanism. Thus a system of moral regulation must set out a table of prescriptions which are taken as moral facts. It must also have a method of surveillance and sanction to ensure that deviant behaviour can be corrected. The more efficient the corrective mechanisms the more people's behaviour will accord with the institution's prescriptions.

The processes of moral regulation operate both internally and externally to the individual. Some obvious examples of external moral regulation include the law and public expectation and opinion. The law exerts a physical sanction, whereas public expectation and opinion operate using honour or shame. Here the regulatory mechanism is external to the individual.

Internal moral regulation is actually carried out by the individual on his or her own self. An example of internal moral regulation is the superego (Freud, 1930). The superego derives itself from the behaviour of the most significant external authorities to the individual during childhood. The child internalizes the roles of these significant others. Thus a mature person is regulated by their own conscience. The superego surely has greater potential as a form of moral regulation since, as Freud (1930) pointed out, no thought or action is hidden from its auspices. The external forms of moral regulation are only necessary when the internal mechanisms are seen to fail.



## **6.4.2 Moral Education**

The emphasis of methods of moral education can be quite different. Let us take the work of Lawrence Kohlberg (1981) as an example of this style. Kohlberg has proposed that a person develops through six stages of cognitive moral development. The first two stages are characterized by preconventional moral reasoning based on an ethic of pure self-interest and egoism. The next two stages, conventional moral reasoning, are based on a social ethic rooted in obedience to the law and traditional social norms. Education to this level is comparable with the forms of moral regulation just discussed. Finally, the most advanced level of moral reasoning is the postconventional which goes beyond a social morality and is based on a critical search for fundamental moral principles. According to Kohlberg, the ability to reason critically is essential to the higher stages of moral awareness.

Therefore, moral education aims to advance a person's awareness beyond a social morality to a critical understanding of morality. Moral education need not stop at the transmission of values but may continue to develop the processes which lead to a heightened sense of moral awareness such as critical reasoning and self knowledge.

There may only be a tenuous association between moral awareness and moral conduct because people who have reached this plateau of awareness need not reach the same conclusions. A heightened level of moral awareness is not necessarily associated with better moral conduct (in terms of the prevailing social norms), nor does it make the resolution of moral problems any easier (Locke, 1987). On the contrary, some moral problems become more complex and abstruse as one's awareness rises, and one may find that some moral

dilemmas are by nature unresolvable (Levi, 1986). Take for instance Hamlet's Sysiphean soliloquy

"Whether 'tis nobler in the mind to suffer  
The slings and arrows of outrageous fortune  
Or to take arms against a sea of troubles  
And by opposing end them"  
(Shakespeare, *Hamlet*, III.I)

This eloquent analysis of the human condition may well characterize the reflections of a would be whistleblower, as she becomes acutely aware of the weighty question of human (in)action. As a person develops cognitively, their ability to rationalize their actions becomes more sophisticated.

#### **6.4.3 Ethics as Education or Regulation**

What gain in understanding does this distinction between the two concepts of morality give us? Essentially, it illustrates that a different purpose is at the heart of each concept of morality. From the perspective of a social conception of morality some form of moral regulation will be required, whereas from the perspective of an autonomous conception of morality the aims of moral education will not be restricted to the former. The means for moral improvement that one is likely to advocate will depend on the emphasis that one places on either a social or autonomous conception of morality. However, particular dangers may be confronted at the extremes of each of these ideals.

There are certain circumstances in which moral education may not be considered appropriate. The development of moral awareness to the highest

levels is only justifiable only if we are looking for a deeper moral understanding of our situation and not simply for clear-cut solutions to our problems (Locke, 1987). So the distinctive goal of moral education is its emphasis on critical self reflection on our moral problems and how these may be confronted. This kind of moral understanding will likely remain at the margins of organizational life, since it requires a level of independent thought which may often challenge the existing working practices of an organization. Under this framework business ethics would be construed as having a critical, if not subversive role, with regard to business institutions (Yeo, 1993). This problem will be returned to in the following chapter concerning the implementation of a question code.

Books such as *Brave New World, 1984*, and *A Clockwork Orange* give powerful portrayals of how moral regulation can be taken too far and thus prove a threat to the moral autonomy of individuals. In *A Clockwork Orange*, Alex is the guinea pig for a new method of social control - Ludovico's Technique. Ignorant of the effects of this technique, Alex chooses it as an alternative to prison. The technique conditions him to feel intensely ill whenever thoughts of violence enter his head. Eventually, Alex becomes incapacitated by sick feelings until he casts his deviant thoughts from his mind. It is the ultimate form of social control since it removes the freedom of choice completely from the subject; he can do no harm except to himself. Eventually Alex is driven to attempt suicide due to the effects of this new technique. The prison chaplain is the only person to see the significance of Ludovico's Technique; he believes that Alex can no longer save his own soul. Only the chaplain recognizes that autonomous morality is essential to humanity. Therefore, moral regulation may be taken too far, and business ethics itself must be wary of wandering too far down this path. Part One of this thesis has attempted to show that even the most subtle mechanisms for moral regulation in business may have a profound affect on the morality of the individual. Take,

for instance, the dangers surrounding the disclosure of moral concerns to managers, who in their role as expert advisors may absolve the individual of their moral burdens, analogous to the confessional ritual (Chapter Three); or the emphasis on the moral regulation, which has as its focus the behaviour of individuals, and may itself divert attention away from the existence of irresponsible institutions (Chapter Five).

Apparently, the extent to which social control is justifiable is a highly controversial moral problem, which is fundamental to any liberal society. Indeed, how is the liberty of the individual to be weighed against other social goods? The British judge, Patrick Devlin (1965), has proposed two justifications for moral regulation by law. The first is simply to promote social moral values. The second is to promote majority freedom. Devlin recognises that there is some tension between these two requirements. It is at the extremes of each approach to morality that their limitations become clear. Moral regulation demands that a person must conform to the prescriptions of the external authority, so complete conformity can only be justifiable if the external authority represents the whole of morality; it must be morally perfect.

A similar point can be made for the case of autonomous morality: moral education demands that a person must be free to choose, but is the individual person the whole of morality? The individual will must be considered morally perfect if complete obedience to it is justifiable. Neither concept by itself can be considered to be the whole of morality and, therefore, one must not approach the notion of moral improvement as if it were so elementary.

The means chosen for the moral improvement of an organization will be limited by the conception of morality upon which it is grounded. Whereas the methods of moral regulation are restrictive and suppressive, the methods of moral

education are developmental and exploratory. An emphasis on one concept of morality will restrict moral improvement in terms of the other.

## **6.5 Implementing Business Ethics**

So what kinds of solutions have been proposed to improve the moral climate of business? These strategies can be divided into three categories. The first two categories include strategies which are regulatory in style and the third includes those which are educational in style.

Strategies included in the first category attempt to redefine the roles and responsibilities of the business person from outside the corporation. Examples of these are environmental and consumer pressure groups and governmental regulatory agencies. Proponents of this category argue that business is not meeting its social responsibilities and the surest way of ensuring that they do is by outside intervention (Stone, 1975; Maitland, 1985). They no longer trust the business community to keep its own house in order without stimulus from the outside. Ian Maitland (1985) has provided a strong argument for holding this view of business ethics. He asserts that those companies which put themselves under tighter ethical constraints will suffer a competitive disadvantage relative to the companies which are less conscientious. Thus external coercion is necessary so that all companies become subject to these ethical constraints and none will need suffer a disadvantage. Indeed, the need for such pressures have already been discussed in order to enrich the moral critique which is already present within business institutions, but in an impoverished form (Chapter Five).

Strategies in the second category include the company's own attempts at self-regulation. This appears to be the most common approach in the business ethics literature. These strategies are aimed at redefining the expectations of the corporate role independently from the occupier's moral beliefs. Improvements are made through the corporation altering its own structure and information systems (Murphy, 1988; Pastin, 1986; Weber, 1990; Winfield, 1990). The implementation of a corporate code of ethics is the most popular strategy in this category in practice and in academic discussion (Centre For Business Ethics, 1986). The purported advantages of this style over others is that it is potentially more effective than regulation from outside the corporation. No one knows better than the corporation's own members what unethical things might be going on inside the corporation. Despite their potential benefits, these strategies are prone to the corporation's own internal politics and so may not be entirely sincere. In Chapter Three, such ideological distortion was uncovered in the self regulation of businesses through their so-called ethical policies.

Strategies in the third category are those methods which emphasize an approach to moral education rather than moral regulation. Educational processes are aimed at increasing the individual's own sense of moral awareness. This should encourage the individual to redefine their corporate role independently of external expectations. These strategies are not rooted in the idea of social responsibility since their aim is not to instil a specific set of values. Instead, they concentrate on the development of the individual in terms of self-knowledge, cognitive faculty, and interpersonal skills (Maclagan, 1990). Maclagan has observed that tight bureaucratic and technocratic regulation can impede a person's moral development. The present argument suggests that the same is true for techniques of moral regulation, such as company codes of ethics. Proponents of moral education often seem to believe that this approach

is the only genuine form of ethical improvement (Mcswain and White, 1987; Waters and Bird, 1987). They argue that the other two categories can only increase the confusion experienced when the individual confronts a dilemma.

The mistake that many of these writers make is that in defending their own approach to business ethics they ignore or reject the validity of others. This illustrates some naiveté in their perspectives on morality. By rejecting or ignoring the validity of the contrasting approaches the limitations of one's own are likely to remain obscure. Therefore, an attempt at a comprehensive methodology for ethical improvement in organizations would reject none of the three categories described above.

## **6.6 The Moral Grounds of Corporate Codes of Ethics**

Throughout the 1970's and 1980's corporate codes of ethics have become increasingly common in businesses in the European countries and in the US (The Conference Board, 1987, 1992). In fact, they are the most popular method for the ethical self-regulation of business.

Traditional corporate codes of ethics are typical of a regulatory approach to ethical improvement. A review of the available literature on corporate codes of ethics quickly confirms this (The Conference Board, 1987; Mathews, 1988; Cressey and Moore, 1983; Schlegelmilch and Houston, 1988; Melrose-Woodman and Kverndal, 1976; Webley, 1992). The following features are common characteristics of corporate codes of ethics which demonstrate their highly regulatory nature:

- 1) traditional codes set out a list of fixed obligations;

- 2) they are grounded in an authority external to the individual;
- 3) they are prescriptive and refer to specific issues and values;
- 4) they tend to be legal in nature (Mathews, 1988; Sanderson and Varner, 1984);
- 5) surveillance and sanctions originate from outside of the individual; sanctions, such as being fired or demoted, may be applied by the corporation. Shame may also operate as an effective sanction when the code is violated.

This orthodox format of company codes of ethics is characterized in the diagram on the following page. Now, the moral limitations of the orthodox form of company code can be explored by referring to the distinction between social and autonomous morality.



**The Orthodox Format of Corporate Codes of Ethics:**

**COMMANDS**

**\* THOU SHALT!** -

-

-

**\* THOU SHALT NOT!** -

-

-

figure 2.

### **6.6.1 Justification of a Code in Terms of a Social Morality**

Company codes apply only to the members of a particular company, but these people are also citizens of a wider society. In what way is a company justified in imposing extra rules of behaviour on its members? Max Weber has described three sources of authority for rules: tradition, charisma, and legal/rational (Macrae, 1974). Based on this categorization Weller (1988) has suggested that,

"An ethical code will be more effective the greater the presence of one of the sources of legitimacy." (1988, p.391)

This observation maybe of great value regarding the implementation of company codes of ethics, but it ignores the issue central to this discussion - that of moral conflict. The corporation can be viewed as a social organization with its own set of priorities. As such the corporate role can come into conflict with both social norms and a person's own principles. The literature on corporate crime is evidence that accepted social norms are often violated in the pursuit of business success (Brenner and Molander, 1977; Hochstedler, 1984).

To legitimately establish a code of ethics a company must regulate its activities on behalf of diverse social interests. Codes should attempt to reconcile organizational priorities with those social interest groups which may be affected by its activities (Chapter Three). This will either reduce these moral tensions or, at least, illuminate them as in cases of social controversy. In this regard, some useful comparisons can be made between company codes of ethics and the law.

Must company codes be restricted to a restatement of the letter of the law to be legitimate? Even the law itself has proven somewhat inadequate in regulating business practices (Stone, 1975; Black, 1980). The Ford Pinto case provides a dramatic example where the law failed to protect its citizens from the abuses of big business. In this case Ford used its political clout in a campaign against tougher car safety standards. This allowed the company to produce a car quite legally despite the fact that it was exceptionally dangerous to those who journeyed in it. In this light, one would be tempted to think that the mere obedience to the law is not adequate reassurance that a company is acting in the interests of its various stakeholders.

The members of a corporation are likely to have a greater knowledge than the legal authorities of specialized corporate activities. The corporation is in an unrivalled position to know of the potential dangers and peculiarities of its corporate activities. It would appear then, that the corporation may be more able to translate the requirements of the law clearly in terms of these corporate activities. In such circumstances, a corporate code may be justified in going beyond the letter of the law insofar as it can anticipate the law. The critical problem of such a view is that, as illustrated in the Pinto case, not only can a company anticipate the law, it can have a direct impact on its creation. The question still remains whether or not this impact is in the interests of its stakeholders. Thus the company's power must be exercised with proper respect for its employees and other stakeholders.

One can ensure that companies, or their representatives, do not exceed their moral authority in codes of ethics by limiting the codes to a restatement of the relevant laws. However, this position avoids many moral concerns which are inextricably linked with the business community. Moral controversy may surround a company even when it operates within the law. Under these

circumstances going beyond the letter of the law could be considered morally justifiable, if not a moral requirement.

Certain controversial aspects of social activity may also fall beyond the limits of the law, such as the arms race, environmentalism, animal rights and sexuality. Where controversy exists the social morality may not prescribe a definitive norm, and pressure groups and civil disobedience may spring up in response to these questions. The diverse norms and values which constitute society actually frame the moral dilemmas that people may experience. For example, in our liberal society it is legitimate for someone to be a pacifist or a soldier; these positions have quite different rationales yet both stances are within the law. Many existing company codes address such areas of social controversy and in this way might be justified in going beyond the letter of the law. A code of ethics cannot resolve areas of controversy, but it can state which side of the controversy the company lies on.

In a democracy one of the central purposes of the law must be to protect the freedom of the individual (Devlin, 1965). Surely, the attempts of companies to further regulate the moral behaviour of their employees would be a violation of this freedom? One way of ensuring that a code does not unfairly restrict the freedom of the company's members is if the code is implemented with due respect to their interests. This entails that when formulating a code the views of employees and the other affected stakeholders must be given equal consideration; this has already been given some consideration in Chapters Three and Five.

The above comparison of company codes with the law outlines a number of areas of moral concern which might be fruitfully covered in a company code of ethics. Nevertheless, the role of company codes in reconciling the pursuit of

corporate goals with social values can be severely criticised (Hosmer, 1987). Indeed, company codes of conduct may have no impact on the moral climate of business. Take, for example, the case where a moral dilemma arises for a person due to conflicting economic and social demands. Often codes do not set out which interest groups the corporation should give priority to, or where social or economic values should prevail (Appendix B; Hosmer, 1987). Thus, they are of little help to the business person who is confronted with an ethical dilemma.

This observation is confirmed by other surveys of company codes of ethics, which have already been discussed in Part One of this thesis. By explicitly recognizing the importance of broader social values it is possible that the conflict between company goals and wider social interests can be reduced. A code of ethics indicates that the corporation is committed to both social and economic values, where before only economic values were officially espoused. By appealing to the social values set out in a corporate code an employee may be officially justified in challenging purely economic motives for corporate activity.

Though an exception to the rule, the Scott Bader Company has clearly stated its priorities in its code of ethics. Outlined in the code is a commitment that the company will not produce anything that contributes to a weapon of war (Melrose-Woodman and Kverndal, 1976). The corporation has clearly set its priorities in this case, and a pacifist would have no qualms when going to work for this company. So, it is quite possible for a corporation to make clear its priorities by stating specific examples in its code of ethics.

All systems of morals tend to give rise to ethical dilemmas, but this does not mean that they should all be rejected (Mill, 1863). A corporate code of ethics

can be used to reduce conflicts between the social morality and the corporation's own demands of the individual, even if its priorities are not precisely clear. For example, an official commitment to the environment in a corporate code will surely justify a manager who wishes to encourage the search for 'cleaner technology' for the firm's manufacturing processes. True, it is impossible to say how much money the firm ought to put into such a project, but this should not prevent its initiation.

### **6.6.2 Justification of a Code in Terms of an Autonomous Morality**

The implementation of a company code of ethics does not rest easily with the concept of an autonomous morality. This unease arises from the tension between the corporate role and the individual's own beliefs and priorities. The tension between these can be used to highlight the moral limitations of company codes of ethics. In an analysis of US corporate codes of ethics, C.C.S.Benson has proposed that,

"the main purpose of codes is to educate employees as to the proper values of the organization and of society." (1989, p. 317)

This statement does not recognize that moral education can extend beyond the demands of moral regulation. Consequently, it does not alert us to the moral limitations of the orthodox codes.

The way in which corporate codes work is by restricting the choices of the individual, therefore, it is somewhat of a contradiction for a corporate code to be rooted in the authority of autonomous morality of individuals. If the code is democratically formulated, then it may go some way to account for the

autonomous morality of all the members of the company (L'Etang, 1992). However, the emphasis of an orthodox company code must be on its role as an external moral authority for individuals in determining their moral decisions. This is in danger of neglecting the individual's role in the moral interpretation of their situation.

Corporate codes cannot help individuals to solve their own dilemmas. At best, they only provide a limited attempt to reconcile corporate goals and values with wider social values and norms. At worst, if they are not democratically formulated then they may be used to distort the perception of moral concerns within business, as was discussed in Chapter Three. For example, US company codes mention behaviour which would damage the operations of the company far more than behaviour on behalf of the company which would harm other outside interests such as the local community (Mathews, 1987). Where there is some discussion of the firm's responsibilities to outside interests this tends to be vague, or limited to the legal requirements. Also, a managerial ideology has been neatly superimposed on the values and interests reflected in US company codes (Cressey and Moore, 1983).

A company code necessarily tries to limit the ways a person approaches a moral problem and, as such, can hamper the development of their moral awareness. Again this highlights the moral limitations of this regulatory approach to ethical improvement. A company code of ethics further extends the company's pervasive regulatory mechanisms. It attempts to reduce moral behaviour to a response to corporate sanctions. The bureaucratic mentality, of which company codes are an extension, may stifle the individual's moral development and unnecessarily restrict their moral choices.

## 6.7 A New Form of Company Code: A Proposal

Company codes need not follow this orthodox format with its inherent limitations. It is possible to design an alternative form of corporate code of ethics, and there are a few scattered examples in the business ethics literature of how this might be accomplished (Nash, 1981; Blanchard and Peale, 1988; Hyman et al, 1990). These represent a truly educational approach to ethical improvement rather than regulatory. These codes are not formulated as a list of commands but as a list of questions. Hyman et al. (1990) observed that,

"Simply offering a list of rules to memorize will not create moral managers, because no number of rules and policies will add up to a single good act." (p. 17)

These authors have not only recognized the moral limitations of company codes but have gone some way to addressing these limitations. Underlying the above proposition is the Kantian notion that the intention behind an action is central in determining whether it is good, or morally praiseworthy. A person cannot be forced to have good intentions. The implications of this have already been worked through with reference to Burgess' *A Clockwork Orange*. The alternative code must not supply answers to our moral problems, instead, it can be used to outline questions which are characteristic of a just moral reasoning process. These questions attempt to relate the language of morals to the language of business.

But what are the features of moral reasoning that these alternative codes must incorporate? Primarily, as a list of questions they are aimed at encouraging a critical outlook on our own behaviour. They may form one half of a dialogue, in Nash's words they, "bastardize the Socratic ideal" (1981, p.88). They have



adopted some fundamental characteristics of moral reasoning which have emerged from the Enlightenment period and its modernist ideals. Notions of impartiality, consistency, and the examination of intentions and consequences have been used by a number of eminent philosophers as a guide to moral reasoning (Kant, 1785; Mill, 1863; Rawls, 1971; Habermas, 1990).

Impartiality can be understood in a number of ways. The philosopher Immanuel Kant (1785) proposed that one must be able to will the maxim of one's action in the form of a universal law for it to be moral. At a minimum this requires that one does not treat oneself as an exception to a rule that others should obey. More recently, John Rawls (1971) has proposed the 'veil of ignorance' as a test for impartiality. This assumes that people will only be impartial if they are ignorant of the social situation in which they may find themselves. Consistency is necessary to moral reasoning because it is a necessary aspect of any reasoning process, rationality itself. The analysis of intentions has been emphasized in theories which are agent centred (Aristotle, 1955; Kant, 1785), whereas the analysis of consequences has been emphasized in theories which are act centred (Mill, 1863). A guide to developing a code of moral questions should aim at linking these notions to inquiry within the business context.

A few examples will be given to demonstrate how these ideas can be successfully incorporated into a question code. One question taken from a code designed by Nash (1981) asks:

"Could you disclose without qualm your decision or action to your boss, your CEO, the board of directors, your family, society as a whole?" (1981, p.81)

This questions the impartiality of the person's decision making. It asks them to consider the likely reactions of a diverse range of stakeholders to the disclosure of their decision. After consideration of this does the individual still believe that they are being fair? On the one hand this question requires a limited degree of role taking, to understand the various interests at stake. On the other hand, the question elevates those mentioned to the status of significant others, whose disapprobation one would be wise to avoid. What might happen if the stakeholders do in fact discover the contents of the decision?

Moral questions which have a bearing on the business context can come in even simpler forms such as the following,

"Would I prefer to avoid the consequences?"

(Hyman et al, 1990)

This question reminds the individual of their role in making decisions, that is, they are morally responsible and might be held accountable. The question prompts a reconsideration of the possible harmful consequences of their decision. If the answer to this question is, "yes", then alternative courses of action should be considered. It is a check to find out whether individuals are rationalizing their behaviour. It challenges the individual to think why they would rather not consider certain consequences. Of course, occasions arise where harmful consequences are unavoidable, this is the essence of a tragedy, where one may be confronted with the full weight of one's moral burdens.

The proposal of a new format for a company code is characterized in the figure below.

### **The Format for a Question Code:**

**\* WHO IS AFFECTED?**

**\* HOW ARE THEY AFFECTED?**

**\* WHAT SHOULD BE DONE?**

**\* WHY - APPEALING TO WHICH RATIONALITY?**

figure 3.

The moral epistemology underlying this alternative form of code will be worked out more thoroughly in the following chapter. For now we will examine the moral limitations of this form of code in terms of the social and autonomous conceptions of morality.

## 6.8 The Moral Grounds of the Question Code

This alternative form of code does not embody a fixed set of community values for the company. Neither need the code explicitly dictate which interests and stakeholders should be important to the company. The enforcement of company norms is not the purpose of such a code and, therefore, the question of corporate jurisprudence is made moot.

The questions set out in such a code can offer no concrete answers to our moral problems. They may or may not lead people to conform with the prevailing social expectations, and so their purpose cannot be adequately defined in terms of corporate social responsibility. The reasoning outlined in the code may lead a person to challenge existing business practices, and this may or may not require a further critique of the ideologies underlying our modern institutions. On the whole, this kind of code is not clearly justifiable in terms of existing social mores.

The strengths of a question code emerge from the autonomous conception of morality. The question format emphasizes the *form* of moral reasoning rather than the imposition of any value *content*. Enforcing this kind of approach to ethics is quite problematic. The compelling theme of *A Clockwork Orange* was that people cannot be mechanically coerced into thinking critically about themselves or their situation; attempts to do this may prove to be quite abhorrent. This leaves us with the condition that employees must sincerely ask the questions of themselves if these questions are to be imbued with some meaning. Question codes must be reliant on the goodwill of the individual, since there is no external restriction imposed by the code on the individual's freedom or will. The code is an attempt to develop critical reflection on

decision making, and it will be effective insofar as it questions the justice of a decision, and encourages the broader consideration of alternatives.

Regardless of whether the alternative code leads to criticism of the views of an individual, the corporation, or society itself, it represents an autonomous morality in another important respect. That is, that any decision or change is made by the individual without dependence on the interpretive skills of external authorities such as an orthodox code or its enforcement agents. This form of code could be used to raise the individual's sensitivity to moral concerns and dilemmas and to emphasize their autonomy in moral choice.

## **6.9 The Interpretation of a Question Code**

A person's own priorities may or may not concur with the prevailing social morality. The key feature of autonomous morality is the ability for critical reflection (Cooper, 1970a; Dworkin, 1976; Kohlberg, 1981). Therefore, a person's level of moral autonomy can be associated with his or her ability to engage in critical reflection.

This can be related to two kinds of moral questioning (Toulmin, 1950). The first kind asks what ought to be done, which presupposes a knowledge of what is right and refers to the prevalent context of social practices and customs. The other kind of question concerns the notion of right itself, challenging the very constituents of morality, such as justice and virtue. Such questions refer to higher principles which go beyond the limits of tradition, for example Kant's Categorical Imperative or Mill's principle of utility. Questions of the first kind are critical only of the individual's conduct, whereas questions of the second kind can be critical of existing social practices.

Therefore, the critical nature of a question depends on the way it has been framed. By questioning previously held social norms one challenges the very foundations on which one makes moral judgments. In this sense the questioning of social practices involves a greater level of moral autonomy than questioning the individual's conformity to these practices. This basic distinction can also be found in the theory of moral development proposed by Lawrence Kohlberg (1981). The more principled and abstract the reasoning the more autonomous the individual is supposed to be. Thus, Kohlberg forges a direct link between a person's critical reasoning faculty, their autonomy, and their level of moral development. Now the interpretation of a question code will be discussed in terms of the object of a moral inquiry, that is, either individual conduct, particular business practices, or general social norms.

### **6.9.1 Self-Reflection on Individual Conduct**

When we ask what ought to be done, our immediate point of reference is the context of accepted social values and practices. Are we conforming to what is expected of us in our current roles? At first sight this is a relatively simple question and it represents the most basic level of moral inquiry. A basic social value such as the right to hold property could be framed within a company as the following question, "Do you know of any employees who have misused or stolen company property?". Note that traditional company codes of ethics operate solely on this level of moral reasoning.

However, this kind of question loses its simplicity when other social values come into conflict with company goals. For example, stealing may become a game in an organization where its members feel extremely alienated from their

official tasks (Mars, 1982). When these conflicts occur one either follows the expectations of a particular social role blindly, or engages in a deeper level of inquiry. If the latter course is taken then we must gauge the relative importance of our rights and responsibilities. The significance of the alternative form of code is that it can lead us into this deeper level of moral inquiry.

### **6.9.2 Questioning Business Practices**

The culture of a business organization can have a direct impact on the level of moral reasoning of its members (Weber, 1990; Trevino, 1986). Companies evolve their own subcultures which are reflected in, and supported by, their peculiar customs, goals, and roles (Deal and Kennedy, 1982). New members learn to adapt to the requirements of their corporate role. Thus the corporate culture has some effect on the way its members act and make decisions within that corporation. Indeed, an orthodox code of ethics may be used as part of these mechanisms for moral regulation within an organization.

To make sound moral judgments employees must always be critical of their own company's goals and the means that are used to achieve them. However, in Chapter Three existing company codes were criticized for replacing an ego-centred morality with a company-centred morality. Company codes tend to serve an apologetic function and thus provide a very limited approach to moral inquiry (Chapter Five).

Sometimes moral inquiry will lead to the criticism of a company's operations and the working practices of its members. Often these criticisms might be justified in terms of other accepted social norms and values; this can be said of many important issues such as honesty in advertizing, the pollution of the

environment, the health and safety of employees and consumers, and the grounds for hiring and firing. However, what the company requires of its employees is the obedience to its rules and achievement of its objectives, not a moral critique or the respect for all persons as moral ends-in-themselves. Moral inquiry and criticism is always in danger of being suppressed within the power relations of an organization. The phenomenon of tight working groups alone can lead to a self-imposed censure of moral criticism (Janis, 1982; Sims, 1992). These problems are central to the implementation of a code of ethical reasoning and will be addressed more fully in a later chapter (Chapter Eight).

### **6.9.3 Questioning Social Practices**

The questioning process has unlimited critical potential, however, no question by itself is free from presupposition; all questions rest on some presupposition. In this way, questions direct the moral reasoning of their audience. For example, including, "Is your action legal?", in a code of ethics already presupposes the relevance of the law. The law may be a relevant consideration if it is assumed to be representative of justice and morality.

Questions may presuppose the priority of the interests of the company or of any other interest group. However, if the code is to aim at fairness then it must rid itself of any unnecessary value presuppositions which may prejudice the decision-making process. Questions can be framed which allow for different levels of interpretation. A single question may lead one to criticize one's own behaviour in terms of an existing social practice or to question the practice itself. How this might be attempted in a list of questions will be addressed more fully in the following chapter.



The point at which the critique of business practice becomes a critique of society is a matter of interpretation. It is quite possible that the questioning of working conditions within a company can evolve into a critique of the ideology of our industrial society. For example, Jones (1988) has placed industrial accidents within the context of an alienated workforce which is maintained under a capitalist ideology. Thus she concludes that "corporate killings" will not stop without a change in the structure of our social institutions and the underlying motivations of the business community.

Similarly the problems of environmental pollution may lead to a critique of our instrumental relationship with nature and, indeed, ourselves (Adorno and Horkheimer, 1972). This raises the problem of whether an ecological disaster can be avoided within the bounds of an instrumental rationality. The question code may not itself unleash such depth of moral inquiry in business, however, these examples serve to show that, theoretically, there is no necessary limit to the process of moral critique. If a limit is to be imposed it should be left to the individual interpreter of the code.

### **Summary and Conclusions**

This chapter has shown that a very limited view of morality underpins the orthodox company code of ethics. An ambiguity as regards the nature of morality lies at the heart of this problem, that is, whether morality originates in the individual or in society. If the social origins of morality are considered, then business ethics must concern itself with social regulation. However, if the moral authority of the individual is considered, then business ethics must concern itself with the significance of autonomy in moral choice. This chapter has illustrated that orthodox company codes are grounded in a regulatory ideal

which emphasizes the social origins of morality. The danger of this conception of morality is that it presumes a very narrow view of the individual's capacity for moral deliberation. It is this observation which has motivated the proposal of an alternative form of company code in this chapter.

The two forms of company code of ethics can be considered to address moral problems in quite different ways. Orthodox company codes have been identified as typical of a regulatory approach to business ethics. From this perspective, a company code will be justifiable in terms of the prevailing social morality. In other words, the codes must reconcile the pursuit of company goals with other social interest groups; this could include the consideration of anyone whose interests are affected by the company's activities. To be effective, a code must clearly state the company's values and priorities. Rewards and punishments can be provided to persuade the weak willed and deter wrong-doing. In cases of social controversy the orthodox code can only state the side which the company as a whole favours; it cannot resolve personal dilemmas. Furthermore, the orthodox form of code cannot by any means cover all possible situations, and it leaves considerable gaps in its consideration of moral concerns in business.

The alternative form of code does not rely on the moral certainty characterized by the orthodox code. Where uncertainty exists concerning the right course of action only moral inquiry can help, and it is this kind of attitude that the alternative code aims to foster. This code may be more appropriately termed a *question code* or *a code of ethical reasoning*. It comes in the form of a list of questions, rather than as the list of commandments which characterize the orthodox form of company code.

Some tension may exist between the aims of these two kinds of company code. Whereas the orthodox code emphasizes the need for obedience to its rules, the question code emphasizes the need for moral inquiry and critical self-reflection. But despite this tension there is no reason why the codes cannot be used to complement each other, since each has a different set of moral limitations. In fact, the content of an orthodox code should be checked with reference to reasoning set out in a well constructed question code. The new form of code may be particularly appropriate for companies which see the orthodox code of ethics as immoral or difficult to enforce.

The proposition of an alternative form of company code of ethics clearly demonstrates a broader view of the concept of morality. Thus, the movement of this thesis is from the notion of moral regulation to the broader notion of moral education. In the following chapters the structure and implementation of this code will be developed.

## CHAPTER SEVEN

### THE DESIGN OF A QUESTION CODE

"The only truly severe code is the one which foregoes codification, throwing responsibility for judging each case upon the agents concerned, imposing upon them the burden of discovery and adoption."

John Dewey (1922, p.103)

How does one go about constructing a company code of ethics without simply dictating a list of moral commandments? As suggested in the previous chapter, this may be attempted by composing a list of questions in which a moral reasoning process may be embodied.

Without some criteria the number of moral questions that could be posed is limitless. Are there certain moral questions which are particularly relevant to business, or must they be of a more general form? Is it possible to formulate a list of questions that can cover all possible moral problems which might be experienced in the business context? Over the following pages this will be answered by formulating some questions which are appropriate to moral inquiry in general. As few presuppositions are made of the company's value system as possible, other than that it exists within a liberal democracy.

The argument running through this chapter is that the most elaborate moral theories under debate today can be embodied in rather simple questions. In this form the code can offer a rudimentary guide to business persons when confronting their own moral problems.

In designing a code in question format it will be useful to consider the following assertion by E.R. Emmet (1964),

"...in order to come to a conclusion as to whether a question is satisfactory, one of the first things to be considered, the first question to ask ourselves about the question, is *how* to set about looking for an answer.." (p. 85)

Therefore, to judge whether the questions in a company code are satisfactory, we must first consider how it is possible to find answers to moral problems. Existing attempts at constructing an ethical checklist can be immediately criticized for having little or no discussion of how answers to moral problems in business can be arrived at.

The question code will be constructed in several stages. The first stage distinguishes moral inquiry from an instrumental business rationality. The second stage outlines the limits of practical reasoning, both in terms of ethics and its practice in the business context. The third stage considers the moral epistemology on which a question code can be built. Once the characteristics of practical reasoning have been examined, a code of ethical reasoning will be constructed. The final part of this chapter will draw on this framework in order to criticize the existing attempts at designing a question code.

Before this a brief summary of the inadequacies of the orthodox company code will be given to remind us of the kind of moral guidance the question code should provide.

### **7.1 The Faults of the Orthodox Code: A Summary**

The traditional form of company code of ethics could be said to suffer from several significant maladies. In Part One of this thesis these codes were criticized for representing a distorted ideological position. Being a limited list of prescriptions, the codes cannot cater for all possible situations which the business person will encounter. Nor are they likely to do justice to the particularity of a situated moral problem; customs are meant to deal with customary circumstances (Mill, 1863). Similarly, the codes only provide a very limited conception of moral criticism, they allow criticism of deviance from the rule but not criticism of the rules themselves. Nevertheless, scrutiny of moral rules may be essential when faced with a moral dilemma (Toulmin, 1950). The orthodox form of company code cannot address such considerations, and this may be particularly dangerous when the dilemma arises from an ideological source.

In the previous chapter these limitations were illustrated by contrasting the concepts of a social and an autonomous morality (Chapter Six). The orthodox form of company code could be seen as a very limited representation of a social conception of morality. In order to overcome the limitations of a purely social conception of morality, moral philosophers such as Kant and Mill have developed procedural rationalities for approaching moral problems. Rather than claiming to represent the social morality outright, a procedural rationality, such as the Categorical Imperative or utilitarianism, can provide a framework

for examining moral problems which does not assume the perfection of the existing state of societal norms.

## **7.2 A Heuristic Approach to Business Ethics**

The code of ethical reasoning will be developed as a heuristic to support the moral reasoning of business persons. A heuristic is a method of education which encourages one to find one's own answers; the ancient Greek, *heuriskos*, meant, to find. One is not simply given answers without the effort of looking for them. This heuristic approach can draw on the more successful attempts within moral philosophy at developing a procedural rationality for moral inquiry.

The heuristic code can be considered to be particularly appropriate when one is uncertain of the right thing to do. In order to ultimately justify one's choices one has, ultimately, to justify one's way of life (Hare, 1963). But it would be rather tedious work if people were required to do this each time they made a moral choice. Instead, one need not regard one's life so critically until a conflict arising from one's previously held beliefs is encountered (Hare, 1981). Such situations might involve conflicts of interest and uncertain interpretations of one's immediate circumstances.

The claim being made for this alternative form of company code is that it supports the moral reasoning of business persons, although, it supports moral reasoning in a rather different way to the orthodox form of company code. As explained in the previous chapter, it represents a more comprehensive conception of business ethics than the existing codes, recognizing an autonomous as well as social understanding of morality. However, if the code

is designed as a support for the moral reasoning of business persons, it must be considered "helpful" in only a very particular sense.

### **7.2.1 Moral Responsibility**

The code should not be helpful in the sense that it will remove the burden of moral responsibility from the decision maker. This can even be considered one of its dangers (Chapter Three). The list of questions which will be formulated in this chapter is not intended to represent a full account of moral inquiry. Indeed, there may be no perfect or ideal set of questions which exhaust all the possible moral considerations. Dangers abound in supposing that such a project is possible. In his attempt to design such a procedure Hare has been acutely aware of this problem:

"Many readers will complain that I have not dealt with the main reason why people want moral principles and values to be objective. What they feel the need for is a decision procedure - an algorithm even - for moral dilemmas. This demand can sometimes take the crudest forms. For example, it may be asked of the moral philosopher that he should produce some yardstick which has only to be applied to actions or to people in order to determine whether they are right or good. To ask this is to ask for a way of escaping from the labour of moral thought." (1981, p.212)

The code once designed can only be given as a rudimentary guide to moral inquiry. Some elements essential to moral inquiry can be identified, which can be incorporated into a list of questions. This list cannot take us to the limits of



moral inquiry and should not be understood as doing so. The reification of the process of inquiry might be avoided if it is open ended and appeals to one's moral imagination.

### **7.2.2 Problem Management**

The code should not necessarily be helpful in "managing the problem". Its aim is not to reduce complexity so that the moral problem can be solved since moral inquiry need not make the decision maker either more or less certain of their choice. The nature of moral inquiry may be that it has no natural end (Nietzsche, 1886). This is most evident in the case of the tragic dilemma, where the individual cannot fulfil one obligation without failing to fulfil an equally binding obligation. Sometimes solutions must be created rather than found (Mackie, 1977). Indeed, it may be argued that the goal of moral inquiry is not necessarily to come to definite solutions to a moral problem, but merely to increase one's understanding of it (Sloan, 1986; Locke, 1987). To understand moral phenomena is to understand alternative possibilities and interpretations of phenomena (Winch, 1958). Solutions or answers are incidental to moral understanding.

The management science approach to moral decision making will lead to unnecessary rationalization. A code can be used to support a person's moral reasoning, but it should be emphasized that moral deliberation need not end at the point where the code ends.

### **7.2.3 Moral Myopia and Business Rationale**

The code should not necessarily be helpful in the sense that it will lead to a more highly motivated workforce or increased profits associated with "excellence" (Peters and Waterman, 1982).

The business institution holds certain dangers for a person's moral life. When business becomes carried out for its own sake, it replaces general happiness as the end of life. The doctrine of the "economic man" limits intelligent inquiry, encourages insincerity, and "puts the pseudo-stamp of moral justification upon success at any price." (Dewey, 1922, p.230-231) Any inquiry proceeding from such premises can only be self-deceptive:

"It is wilful folly to fasten upon some single end or consequence which is liked, and permit the view of that to blot out from perception all other undesired and undesirable consequences."  
(Dewey, 1922, p.229)

If problems are perceived in this way from within a company, if happiness becomes subsumed by money, then what reason would anyone have to refer to a code at all? Kant (1785) defined moral agency as the ability to act on what one perceives to be the truth. Outright coercion cannot force a person to deliberate with greater moral acuity. Just as it may be impossible to give a person reasons which will persuade them to act morally, so it is impossible to give reasons to sincerely consider the questions in a code as if they were one's own. The code which will be designed in this chapter will be grounded on a moral epistemology in the tradition of liberal moral philosophy (Rawls, 1971; Hare, 1981). Therefore, it will simply take a reasonable liberal person to see

the truth of the code. Admittedly, this still leaves problems concerning the way organizational politics can suppress moral critique.

There is a danger that rigorous moral reasoning may not enter into the business persons deliberations at all, or only when it is too late. There may be no motivation to use the code until the traditional business norms no longer cater for one's present situation (or interpretation of that situation). But, by then it may be too late because the person may have already defined the problem in pursuit of some particular end, with complete neglect of other considerations.

Here we encounter a difficulty which is crucial to moral deliberation, and hence crucial to the construction of a question code. That is, one may evade many important moral issues simply by excluding specific interests from the outset of one's considerations (Rorty, 1989). Thus, one's appreciation of the relevant interests will be based on the prejudices which arise from a parochial view of one's moral community rather than critical moral inquiry. Aristotle himself condoned the exclusion of slaves from his moral community in Ancient Athens, though he may have been somewhat troubled by the philosophical foundations for this folly (Russell, 1946). To gain a more liberal and enlightened view of one's moral community one must consider the interests of all those who might be affected by the course of action that is under contemplation. Indeed, it could be argued that a truly moral point of view (as opposed to egoistic) requires that no sentient being whose interests are affected is excluded from consideration (Singer, 1988).

The problem is one of how to motivate people to challenge their perception of their moral community. Certainly, this would be too great a project to be attempted by a code of ethical reasoning. It is a problem which has underpinned all forms of monological reasoning, and will be discussed below

with reference to the work on discourse ethics (Benhabib, 1992; Habermas, 1990; Kettner, 1993; Chapter Eight).

### **7.3 Entering Moral Inquiry**

The problems discussed above have two important implications for the design and implementation of the question code. The first concerns the scope of moral problems the code can deal with. The second concerns whether the code can have any bearing on the deliberations of a business person in the first place.

If a procedure for moral thinking is to be applicable to any given situation in business, then the context of a moral problem must not be presumed. The structure of the code's questions need not presume an adversarial position in relation to the referent's beliefs, because the nature of the critique should become apparent through the process of moral deliberation. After clarifying a moral concern one may discover that although a conflict of interests exists, the moral norms guiding this are clear, equally one may engage in a critique of these norms. Thus, questions must be able to frame moral inquiry regardless of how the situation is initially perceived.

This project is exactly what the liberal thinkers, John Rawls (1971, 1985) and Richard Hare (1963, 1981) have attempted. They have developed procedural rationalities which can be used to address moral problems. Whether the problems involve straight forward conflicts of interest, or more subtle contradictions of belief, the method of moral inquiry can take the same form in either case. What some perceive as an intractable conflict of interest, others may interpret as a deeper ideological problem. However, the same form of moral inquiry may lead to either conclusion.

The generality of this approach allows it to cover as many situations as possible, where the only fundamental rule governing these situations is a respect for persons. It represents a universalist approach to moral inquiry which could refer equally to the concerns of anyone, be they a labourer, a professional, a politician, or a member of the general public. It does not presume a corporate or economic rationale because this would neglect the central features of moral reasoning, such as, the consideration of different ends, and the consideration of one's moral community.

Now, we can move on to the second and more disturbing implication of the above arguments. One might dispense with all the trouble of designing and implementing a company code of ethical reasoning if one believed that business persons were incapable of making moral decisions, or at least, that it was not their place to do so. Are business persons amoral? Is it possible to maintain that the function of business is merely technical or economic, where no other considerations are allowed to impinge on these imperatives?

There are a number of sophisticated arguments which explore the moral capacity of the business person (Goodpaster and Mathews, 1982; French, 1990; Velasquez, 1988; Reed, 1988; Ladd, 1970; De George, 1988). Of this debate, only John Ladd seriously contends that business persons are indeed amoral, or should be perceived to be so. He uses the analogy between the rules of a bureaucracy and the rules of a game such as chess. Once one has decided to play the game one can hardly challenge the rules of the game. However, the extent to which Ladd uses the game metaphor must be challenged. A game may be defined partly by the fact that it has no end outside of itself, it can justify itself as play. On the other hand, a company may have ends outside of itself, such as the gratification of material needs, which are essential to its

justification. It is by considering the many different ends of the company and of those engaged in it that its rules can be challenged.

Others entering this debate tend to focus on how the corporation can exhibit moral agency as a distinct entity, and the resultant question of how this affects the moral responsibility of its individual members. It may be possible to become an amoral person, but, if persons are to exempt themselves from moral thinking, they must also forfeit the protection afforded by morality (Williams, 1985). Otherwise they would be immoralists or mere hypocrites .

There is yet another more critical argument for why such codes might never be referred to. In Chapter Three, it has already been argued that the rise of the management profession is indicative of the disappearance of moral decision making from our liberal societies. In fact, there is plenty of evidence which shows that moral criticism has often been suppressed within the business community (Waters et al., 1986; Jackall, 1988; Winfield, 1990). If this is the case, and the effect of management has been to suppress moral inquiry in this way, then implementing a question code may prove fruitless. Limits cannot be justifiably placed on moral reasoning merely to stifle criticism of those in positions of power and responsibility. An inquiry into how moral debate may flourish within the business community will be the focus of the following chapters. For the purposes of the present argument, consideration of this pessimistic thesis will be suspended until a later chapter (Chapter Nine).

Before a code of moral reasoning is constructed a brief discussion will be given concerning practical reasoning and its limits.

## 7.4 Practical Reasoning

In a liberal society, citizens should be at liberty to pursue their own idea of the good life. Pluralism allows different conceptions of the good to coexist within the general framework of the law; there is no single accepted good way of life. Indeed, since Hegel (1931) the search for a transcendental source of morality has largely been abandoned. The point at which modern moral philosophers stand is one without definitive grounds, where they must find an approach to moral inquiry even though it has no knowable end. Recognizing the contingency of our moral beliefs need not require that we lose our commitment to them, nor does it make moral inquiry pointless (Rorty, 1989). Thus, modern moral philosophers, such as Hare (1963, 1981) and Rawls (1971), have built on the insights from Kant's original formulation of the Categorical Imperative (Kant, 1785), but without appeal to its transcendental source.

Practical reasoning begins by asking the question, 'how should I live my life?' But this need not be starting point of the business person every time they encounter a moral concern. 'What should I do now?', is a more particular form of the general Socratic question. The particular form of inquiry is bounded by the immediate circumstances, but at the same time, it cannot be entirely divorced from the more general question of how one should live. The relevance of this point to business ethics becomes apparent in relation to virtue theory, which will be discussed in greater detail in Chapter Nine.

This question of ethics has been addressed using a variety of concepts such as justice, law, virtue, happiness, duty, and rights. One may ask whether a code should embrace any particular ethical theory. For example, one can distinguish between deontological theories, which seek principles that are good in themselves, or utilitarian theories, which seek actions or principles that

maximize happiness. It is not possible to choose between such theories, at least not on any moral grounds, because there are no further moral criteria on which to perform such a task (Toulmin, 1950). An ethical theory can only be effectively criticized on its own grounds (Williams, 1985). Therefore, one style of practical reasoning need not be chosen in favour of another for use as a framework in constructing a code. However, once a moral epistemology has been chosen it must be followed consistently through the code. To combine different approaches into one code will only highlight the incommensurability of moral different concepts (MacIntyre, 1985). This will be discussed in greater detail below in the criticism of existing attempts at code design.

Hare's utilitarian theory and Rawls' contractualist theory can be considered to be the most elaborate forms of practical reasoning currently under debate (Williams, 1985). Their approach to moral inquiry offers us a procedural rationality which does not require a known end of man. It is these two rigorous approaches which will be referred to in the construction of the code ethical reasoning.

## **7.5 The Limits of Practical Reasoning**

There are some discernible limits to the scope of practical reasoning in relation to ethical behaviour. Bernard Williams (1985, 1987) has argued for the primacy of dispositions in arriving at moral decisions. This is based on the observation that,

"I am, at the time of mature reflection, what I have become, and my reflection, even if it is about my dispositions, must at the same time be expressive of them." (p. 51, 1985)



The primacy of the dispositions does not necessarily mean that practical reasoning is of no consequence to our moral point of view or our moral behaviour. This clearly illustrates the psychological limits of self-reflective reason in reaching moral decisions. The role for practical reasoning in ethics cannot be denied, however, the outcome of this will always be somewhat determined by the person's dispositions (Williams, 1985, 1987; Hare, 1981) .

Recently, MacIntyre (1985, 1988, 1990) has argued persuasively for the (re)establishment of virtue in society. He contends that the forms of practical reasoning which were offered by the Enlightenment philosophers have failed on their own terms to produce an enlightened society. To address this failure virtue must become the core concept underlying moral education within society, without which practical reasoning can come to nothing.

Therefore, in proposing a code of ethical reasoning to support business persons in their understanding of their moral concerns, we must not ignore the fact that this understanding can only be expressed through a particular person's character. This limitation of practical reasoning in ethics and its emergence in modernity will be explored further in relation to business ethics in Chapter Nine.

## **7.6 The Design of a Heuristic for Moral Reasoning**

This heuristic should provide a way of thinking about moral problems which is both fair and just. The aim of this inquiry need not involve a simplistic method to obtain answers to knotty moral problems, but rather a process of gaining a greater appreciation of these problems. At the same time there is no need to

wade through an ocean of moral concepts to engage in moral thought. Therefore, a consistent moral epistemology will be used as the basis of this heuristic. Here the moral theories of John Rawls (1971) and Richard Hare (1963, 1981) will be examined in order to provide a framework for inquiry.

Within the liberal tradition, both moral theories attempt to give equal consideration of the interests of the relevant people. Hare's theory is utilitarian in nature, which emphasizes the need for a knowledge of the constituents' preferences in order to arrive at an impartial decision. This approach is closely akin to the greatest happiness principle which lies at the heart of much Utilitarian philosophy (Hare, 1981; Williams, 1985). This can be contrasted with Rawls's contractarian theory, which emphasizes the need for an ignorance of the particular preferences of the constituents in order to arrive at an impartial decision. Thus, whereas Hare's method requires 'imaginative identification' with the constituents, Rawls's method requires that a 'veil of ignorance' conceal the benefits arising from the constituents' own prospective social position. In either imaginative construction the individual self is lost, and in this way it may be possible to approach impartial moral decisions.

### **7.6.1 Hare's Approach**

Hare looks for the constituent elements of morality in the very structure of language (Hare, 1963). He takes moral language to contain the following features: prescriptivity, universalizability, and overridingness. Moral judgments are prescriptive insofar as they express people's preferences. And they are universalizable insofar as the interests of others are considered as if they were one's own. In Hare's words universalizability 'entails identical judgment about all cases identical in their universal properties' (1981, p.108). This distinguishes

between what one's own preferences are and what one actually ought to do. Finally, moral judgments are overriding since they express a state of preferences all told, that is once they have been weighed against each other.

Universalizability can be achieved by role reversal; that is, imagining oneself in the other person's situation. However, Hare points out that this is not enough to arrive at a fully moral point of view (as defined by Hare). One must identify with their preferences too, since one cannot claim to know what is in the interests of other people without consideration of their own preferences. Otherwise, they could logically make an equal claim with regard to our own interests.

One cannot know what it is like to be in another person's situation unless one also takes on that person's preferences. Only then can somebody claim to know in what ways their situation is identical with others'. That person must agglomerate their preferences with the preferences of the others who could be affected by the outcome of the decision. This may require an impossible feat of the imagination, but one that must be pursued nevertheless; under these conditions one need not agree with the other's ideals and tastes but still respect them.

There exists some disagreement that this level of stringency is actually required to make a moral decision (Mackie, 1977). It may not be necessary to identify with the other's preferences so completely in order to come to a moral point of view. One need only apply a simple role reversal process such as the Golden Rule. Hare (1981) responds to this criticism by claiming that simple role reversibility is one possible interpretation of his procedure, but if this simple interpretation is accepted then one must also accept his ideal interpretation.

The Golden rule is subject to a number of epistemological weaknesses. Idealist fanatics can abide by this simple interpretation of morality, but, in the name of their ideal or cause, they could thus justify cruelty and the exclusion of particular interest groups. The Golden Rule, "Do unto others as you would have them do unto to you", does not always lead to an adequate moral point of view. To illustrate this point, Hare resorts to an example at the extremes of moral behaviour. The fanatic Nazi could protest that he should still accept extermination of the Jews even if he were to discover that he was of Jewish descent. Also, the Golden Rule gives us no guidance where respect for one person requires us to violate it out of respect for another.

In order to overcome the problems inherent in the Golden Rule, Hare reinterprets the Categorical Imperative, in order to dispense with the need for some transcendental proof. This yields a utilitarian formulation embodied in the following question :

"What maxim can I accept as of universal application in cases like this, whether or not I play the part in the situation which I am playing now?" (1963, p. 72)

### **7.6.2 Rawls's Approach**

Rawls also constructs a universalizability procedure. Indeed, both philosophers have acknowledged the similarity of their approaches, despite being grounded in a rather different assumptions (contractualist rather than utilitarian). Rawls's theory places decision makers in the 'original position' where they will necessarily choose justly because they are not yet participants in society and are unaware of what their particular social position may be, or their skills and

tastes. Rawls constructs a device he terms 'the veil of ignorance' under which the decision maker will arrive at the original position. Under the veil of ignorance,

"No one knows his situation in society nor his natural assets, and therefore no one is in a position to tailor principles to his own advantage." (1972, p. 139)

At the same time the person is required to have a knowledge of the society and its institutions, although this knowledge must not be conditioned from a particular social situation. This approach is similar to the Meadian concept of the generalized other, whose perspective is not conditioned by a single personality (Mead, 1932). By itself, the 'original position' will not necessarily lead a person towards just decisions, because it allows for the possibility of risk taking. Even under the veil of ignorance a decision maker might allow a minority group to suffer undeservedly if the risks were seen to be small enough (Williams, 1985). Thus, Rawls has had to remove any element of risk taking by assuming that certain 'primary goods' will always be chosen, such as liberty and opportunity, income and wealth, and the bases of self-respect. In order to avoid this element of risk under the veil of ignorance the 'maximin' rule must also be applied, which requires that alternatives must be ranked by their worst possible outcomes. The result of Rawls' analysis can be formulated into two general principles of social justice:

- "(1) Each person is to have an equal right to the most extensive liberty compatible with a similar liberty for others....
- (2) Social and economic inequalities are to be arranged so that they are both (a) to the greatest benefit of the least advantaged

and (b) attached to offices and positions open to all under conditions of fair equality of opportunity." (1971, p. 60,83)

How can a Rawlsian approach to practical reasoning be applied to the everyday moral concerns of business persons? It might be objected that the principles of social justice arrived at are a matter for political debate rather than company policy. Reflective equilibrium would certainly be difficult to swallow by those who hold competition as the overriding principle of business. Rawls's theory was designed to be a theory of distributive justice rather than a theory of morality in general. However, the method of reflective equilibrium which Rawls advocates as a moral decision making process need not be abandoned along with its implications for public policy. This procedure yields the contractarian question:

"Would you make the same decision if you were unaware of your stake in its outcome, that is, if you did not know which of the affected constituents you were?"

The elements of practical reasoning derived from the theories of Rawls and Hare have been argued as essential to arrive at just decisions. As such, they can provide the basis for a heuristic representation of a company code of ethical reasoning. That is not to say that business persons should not add to this list, but always in the spirit of the original questions. Based on the approaches to ethical theory examined above an ideal code might look like the following:

## **A Guide for Moral Inquiry in Business: A Rawlsian Approach**

**WHO COULD BE AFFECTED BY YOUR DECISION OR ACTION?**

(Your family, yourself, customers, suppliers, shareholders, other employees, other companies, the local community, society as a whole?)

**WHO BENEFITS FROM THIS?**

**WHO SUFFERS FROM THIS?**

**WOULD YOU MAKE THE SAME DECISION IF YOU WERE UNAWARE OF YOUR SHARE IN ITS OUTCOME, THAT IS, IF YOU DID NOT KNOW WHICH OF THE AFFECTED CONSTITUENTS YOU WERE?**

figure 4.

**A Guide for Moral Inquiry in Business: A Harian Approach**

**WHO COULD BE AFFECTED BY YOUR DECISION OR ACTION?**

(Your family, yourself, customers, suppliers, shareholders, other employees, other companies, the local community, society as a whole?)

**WHO BENEFITS FROM THIS?**

**WHO SUFFERS FROM THIS?**

**WOULD YOU ACCEPT THIS DECISION IF IT WERE APPLIED  
UNIVERSALLY IN ALL SIMILAR CASES, WHETHER OR NOT YOU  
PLAY THE PART IN THE SITUATION WHICH YOU NOW PLAY?**

figure 5.



## 7.7 Some Problems with Universalizability

The heuristic approaches outlined above embody some of the basic insights into the moral reasoning of contemporary liberal philosophy. This moral tradition is characterized by the construction of procedures for universalizability, whereby nobody's interests are considered superior to anyone else's. No one is to be used merely as a means to another's ends, no one is to be treated as if they were a slave. Although a worthy ideal, the mental gymnastics involved in these procedures are not without their critics.

To begin with, universalizability procedures may be of dubious applicability, where general principles may not be so clearly related to the particularities of real life situations (Heller, 1990; MacIntyre, 1984; Winch, 1972). This concern has been encapsulated by Heller (1990) who has observed that ,

"Actors always find a universal moral maxim which can be indirectly related to their action or with which they can justify their action retrospectively, even if they have chosen the course of their action prospectively without ever consciously relating it to a universal maxim." ( p.198-199)

This dilemma arises from the generality of norms, as compared with the particularity of actions. The limitations of understanding morality simply in terms of rule following behaviour are quite clearly stated in this dilemma.

Both Hare and Rawls have been criticized with regard to their moral epistemology (Benhabib, 1992; Heller, 1990; Seanor and Fotion, 1988; Williams, 1985; Winch, 1972). Hare's idea of agglomerating the preferences of

the constituents of a moral decision is of questionable applicability. Williams (1985) has asserted that one can only understand one's preferences in so far as they are one's own, and therefore, agglomeration will be a meaningless task.

Seyla Benhabib (1992) has identified similar problems with Rawls's epistemological assumptions. Benhabib is concerned with "situating the self" in moral inquiry and the effects of the veil of ignorance on this process. The universalizability of a judgment requires the judgment's acceptance by the decision maker in all similar situations; this includes when the role of the decision maker is reversed in the situation. But the question Benhabib asks is 'which situation?' (Benhabib, 1992, p. 162). Under a veil of ignorance persons are no longer able to individuate between situations, since they are incapable of understanding how their own situation is like that of another's. A person must lose this essential knowledge along with the knowledge of their own interests when under a veil of ignorance. One's imagination is confounded by epistemology in the attempt to attain the moral point of view.

Therefore, Benhabib formulates the concept of the 'Concrete Other' to complement that of the 'Generalized Other'. This is in order to situate one's decision in the lifeworld once again. The generalized other is the decentred state of the self which universalizability aims to engender. From the perspective of the generalized other, morality is defined in terms of justice and the 'universalistic commitment to the consideration of every human individual as being worthy of universal moral respect.' (Benhabib, 1992, p. 10). On the other hand, the concrete other is the self considered in its various communal roles, immersed in the everyday world where morality is also defined in terms of care and solidarity.

But, how is this concrete other to be apprehended and taken into moral inquiry? A fundamental criteria is that the voice of the other must be heard (Benhabib, 1992, p.118) Therefore, dialogue must be an essential feature of moral inquiry. This idea will be elaborated in the following chapter, which emphasizes the role of dialogue in implementing a question code. For now, the final section of this chapter will take to task other existing attempts at designing a question code for business persons.

### **7.8 A Critique of Existing Heuristics**

Through a literature review of company codes of ethics a number of articles have been identified in which ethical checklists have been proposed for business persons (Blanchard and Peale, 1988; Henderson, 1992; Laczniak and Murphy, 1991; Mathison, 1988; Nash, 1981; Hyman et al., 1990; Schermerhorn, 1989). Based on the problems discussed in first part of this chapter a series of criticisms can be levelled against these various attempts. This critique will emphasize the superiority of the code formulated in this chapter over any existing attempts by other authors.

Of the previous attempts at designing a question code some are better than others, though all have their weaknesses. All these existing attempts suffer from at least one of four general faults: conceptual inconsistency, limited moral inquiry, superficiality, and myopic business rationale. On the following pages two examples will be given of these "ethics checklists", representing the worst and the best of the existing attempts. The first example was published in a book by the best-selling authors Kenneth Blanchard and Dr. Norman Vincent Peale (the holder of twenty-one honorary doctorates from an assortment of business schools), and is therefore likely to receive a wider circulation than any

of the other checklists. This is the worst example of its kind. The second example was developed by Laura Nash of the Harvard Business School, and is immensely more rigorous in its approach to dealing with moral issues. There has been no evidence as yet regarding the adoption of either of these codes by business corporations.

**Example 1.**

" THE "ETHICS CHECK" QUESTIONS

1. *Is it legal?*

Will I be violating either civil law or company policy?

2. *Is it balanced?*

Is it fair to all concerned in the short term as well as the long term?

Does it promote win-win relationships?

3. *How will it make me feel about myself?*

Will it make me proud?

Would I feel good if my decision was published in the newspaper?

Would I feel good if my family knew about it?"

(Blanchard and Peale, 1988, p.27)

## **Example 2.**

### **“Twelve questions for examining the ethics of a business decision**

1. Have you defined the problem accurately?
2. How would you define the problem if you stood on the other side of the fence?
3. How did this situation arise in the first place?
4. To whom and to what do you give your loyalty as a person and as a member of the corporation?
5. What is your intention in making this decision?
6. How does this intention compare with the probable results?
7. Whom could your decision or action injure?
8. Can you discuss the problem with the affected parties before you make your decision?
9. Are you confident that your position will be as valid over a long period of time as it seems now?
10. Could you disclose without qualm your decision or action to your boss, your CEO, the board of directors, your family, society as a whole?
11. What is the symbolic potential of your action if understood? if misunderstood?
12. Under what conditions would you allow exceptions to stand?”

(Nash, 1981, p.81)

### **7.8.1 Conceptual Inconsistency**

Even before examining the specific content of these codes their inadequacy is indicated by the absence of any explicit methodology for their design. This is reflected by the jumble of moral concepts which often appear in a question code, even in the most rigorous attempts (Henderson, 1992; Mathison, 1988; Laczniak and Murphy, 1991).

There is a danger that this inconsistent moral epistemology is self defeating. Utilitarian, contractarian and deontological theories were developed in response to different problems (MacIntyre, 1985). By building a question code using a pastiche of moral theories the outcome may be greater confusion rather than any depth of understanding. This is why it is essential to follow a consistent moral epistemology in the design of a question code, a trait which few existing attempts exhibit.

The knotty problems posed by moral incommensurability are by no means exhausted in terms of conceptual inconsistency. However, closer scrutiny of these problems remains the task of a later chapter (Chapter Nine).

### **7.8.2 Limited Moral Inquiry**

Some attempts at designing a question code fail to emphasize the complexity involved in the moral interpretation of phenomena. The following statement exemplifies a distaste for the anxiety that one can feel in confronting a moral choice:

"The principle aim of management science is to reduce business uncertainty. The principle aim of business ethics is to reduce moral uncertainty - for all constituents." (Henderson, 1992, p. 23)

Following from this assumption, the aim of code design would be to simplify moral decision making and hence reach conclusions in a satisfactory manner. Apparently, this is the purpose of the checklist approach to ethical reasoning (Blanchard and Peale, 1988; Henderson, 1992; Hyman et al., 1990; Schermerhorn, 1989). But, this purpose contradicts what has been said earlier about moral inquiry, that is, moral inquiry need have no natural conclusion. To force a conclusion due to the anxieties of the decision maker might only result in a self-deception. Thus the checklist approach is in danger of unburdening the business person of the effort of moral thinking.

Little imagination or depth of inquiry is required in the questions of many codes (Hyman et al., 1990; Blanchard and Peale, 1988; Henderson, 1992; Schermerhorn, 1989). Those questions which ask for "yes/no" answers may not take moral inquiry very far. Hyman et al. (1990) have admitted that their checklist only provides a rudimentary outline for moral reasoning, but even so their checklist approach is inherently in danger of being used as a rationalizing device. The responsibility for one's moral decisions may be transferred to the fulfilment of the requirements of the checklist. In order to prevent this, a more open ended form of questioning must be used, or certainly one which encourages people to exercise their moral imagination (Hare, 1963; Sartre, 1948). Examples of codes which support open ended and imaginative moral inquiry can be found in the more rigorous attempts at designing a question code (Nash, 1981; Laczniak and Murphy, 1991).



### 7.8.3 Superficiality

Can all these question codes truly enrich a person's moral interpretation of their situation, or are they merely token representations of moral inquiry? Some codes are more liable to this accusation than others (Blanchard and Peale, 1988; Hyman et al., 1990; Schermerhorn, 1989). It may be the case that no method of practical reasoning exists that can claim to provide solutions to all moral problems, and this is certainly true of any question code. Nevertheless, these codes must avoid superficiality or a distorted presentation of moral inquiry.

On the one hand the questions must not be daunting, but on the other hand, they must not be mundane either. Some ethical checklists are so basic as to beg no moral insight whatsoever of the business person. One list begins by entreating the individual to 'Recognize and clarify the dilemma', and then to 'Get the facts' (Schermerhorn, 1989). In what way could these guidelines help someone who is experiencing a moral concern? The method of fact collecting and dilemma clarification subsequently provided by this checklist is equally vague.

One checklist explores the knotty problems which may surround the justness of a decision simply by asking, "Is it balanced?" (Blanchard and Peale, 1988). This is further clarified by the questions, "Is it fair to all concerned in the short term as well as the long term? Does it promote win-win relationships?" Such questions completely ignore the possibility of hypocrisy, self-deception and rationalization which might be a feature of the business person's moral thinking (Brenner and Molander, 1977; Gellerman, 1986; Konovsky and Jaster, 1989). Their rationality for arriving at fair decisions does not require self inquiry or

anything but the most superficial thought. In this code no effort of inquiry or imagination is required concerning who might be included in 'all those concerned' (Blanchard and Peale, 1988). Yet, an analysis of the constituents of one's moral community, and those who might be affected by one's decisions, is a crucial feature of moral reasoning (Rorty, 1989; Williams, 1985; Singer, 1988).

Enhancing moral inquiry need not involve highly sophisticated questioning, but it must certainly avoid the superficiality exhibited in many of these checklists. Indeed, questions can be asked in a relatively simple format which may then be interpreted with different degrees of sophistication, such as in the code constructed earlier in this chapter.

#### **7.8.4 Assumptions of Moral Constituency**

This final criticism refers to the concepts of role taking and universalizability which are central to moral understanding in the Enlightenment tradition (Hare, 1981; Kant, 1785; Kohlberg, 1981). The way in which this is approached in codes best illustrates the narrowness underlying their moral vision. Universalizability has been the fundamental building block of the question code developed earlier in this chapter.

Ideally, procedures for universalizability, or ideal role taking, will promote the equal consideration of the interests of others, and may be taken to represent the essence of practical reasoning (Hare, 1981; Rawls, 1972). At least, this interpretation of justice may be considered central to the democratic ideal and the lifestyle of the contingent modern liberal (Rorty, 1989). This conception of justice raises two problems: a) whose views are to be considered in a decision,

and b) how are these views to be considered? Answers to these questions have been provided in the previous section as the conditions for moral inquiry. However, few of the previous attempts at designing a question code have defined moral inquiry so rigorously.

### **7.8.5 Whose Views Are Relevant?**

The consideration of diverse social interests and roles may prompt a broader perception of one's moral community in business. Non-business perspectives, such as the family, may form an essential part of the moral point of view (Benhabib, 1992), and can enrich the business person's understanding of the moral issues at stake. Several question codes make explicit reference to family roles in their questions (Blanchard and Peale, 1988; Nash, 1981; Schermerhorn 1989). Apparently this technique is often used in moral education programmes for managers (Otten, 1986). In this way a palpable link may be forged between the development of question codes and moral education programmes within companies.

Equally, codes which mention business roles may relate moral language to a business vocabulary more persuasively (Hyman et al., 1990). One code contains a distinction between oneself 'as a person' and oneself 'as a member of a corporation' (Nash, 1981). This code explicitly begs the individual to consider the views of her boss, the board of directors, her family, and society as a whole. Also, the constituents under consideration are defined in terms of all those who could be affected by the decision. This code clearly begs business persons to challenge their conception of their moral community and to decentre their interpretation of their immediate situation. Other codes also encourage

this approach to moral understanding to a minor extent (Laczniak and Murphy, 1991; Henderson, 1992).

Role reversal may be an easier imaginative feat where the business person already occupies the role mentioned, such as the roles of a professional, a parent, or even an environmentalist. But, no matter which interests are mentioned in these questions, there will always be some that have been left out. It may be impossible to adequately challenge one's perception of one's moral community in this way. This reinforces the argument for considering relevant interests simply in terms of all those which may be affected by the decision.

#### **7.8.6 How Are Other Views Considered?**

The questions apparent in existing question codes can be seen as at a rather basic level of moral reasoning, allowing for much rationalization. Shame and prudential business sense appear to be the motivating factors underlying the questions set out in many of the codes. For example, one question asks if the decision under deliberation would put off job applicants if it came to their attention (Hyman et al., 1990). This may appear to be a subtle way of linking moral reasoning to the business language, but it is quite unclear how this could enrich a person's moral perspective, except in a very prudential sense. Are the opinions of potential job applicants to be held as a sound moral guide? Another question asks, if your own family became aware of your behaviour at work would they think worse of you (Blanchard and Peale, 1988; Schermerhorn, 1989)? These questions do not lead moral inquiry far beyond a risk taking exercise, leaving much room for rationalization.

Rationalization is often not adequately addressed within the structure of the codes. For example, some constituents of the decision may not be given due consideration if the decision maker already believes that any suffering on their part is well deserved (Matza and Sykes, 1957). Their interests can only be given the proper consideration under the ideal universalizability, which underlies the question code developed earlier in this chapter.

There is also a danger that these various perspectives may not be fully appreciated unless they are somehow made concrete to us (Benhabib, 1992). In order to account for this danger a dialogical approach to moral reasoning will prove necessary. This problem will be considered in greater detail in the following chapter.

### **Summary and Conclusions**

The question code developed in this chapter implicitly recognizes that persons must take responsibility for their interpretation of moral rules and norms. This overcomes many of the moral limitations of the orthodox company codes of ethics. This code represents a procedural rationality for moral inquiry by providing a heuristic for moral inquiry, which recognises our status as autonomous moral agents as well as social beings.

It may be objected that this code is too sophisticated and it requires too much from the business person. However, the questions have been framed in simple language, avoiding unnecessary jargon from either philosophy or business. These questions allow for interpretations of increasing degrees of sophistication, which are dependent upon how the interests of others are considered.

It is questionable as to whether the question code should be tailored to the requirements of the particular individual or company. Changes to the code must be considered carefully lest they detract from the moral insight and force of the original questions. The changes must not simply exempt one from full consideration of the code's questions.

There are already some existing attempts at designing an ethical checklist, but the more superficial attempts are unlikely to uncover the rationalizations that are already present within the business context. The more sophisticated attempts could provide a richer framework for moral inquiry. However, even these miss some essential aspects of moral inquiry, specifically concerning the scope of our moral community and the rationalization of our moral burdens.

In the following chapter the problems associated with the implementation of this ideal code within a company will be considered. This confronts the limitations of universalizability in forming a moral point of view, particularly with regard to its monological epistemology.

## CHAPTER EIGHT

### THE IMPLEMENTATION OF A QUESTION CODE

To know the good is to do the good. Or so Plato suggested in his *Protagoras*. To be morally responsible at work we must have some idea of what these responsibilities entail, and how best to carry them out. In the previous chapter, an ideal question code was proposed in order to help make clear what a business person's moral responsibilities might be in any given situation. However, this gave little consideration to the possibility that someone in business may not be motivated to either know or do the good. It is the purpose of this chapter to address this problem with reference to implementing a question code.

There are many reasons for supposing that a code of ethical reasoning will not be taken seriously within a business organization. Different people and organizations may receive and use a question code in different ways. The following discussion will attempt to give some indication of those organizations and people most likely to accept or reject the moral reasoning embodied in a question code.

This chapter will begin by outlining the salient characteristics of individuals, such as their sincerity, their conscience and their level of moral development, which may have a bearing on how they may interpret a question code. Even if a person takes moral issues quite seriously, the code is open to quite different interpretations. The way a person interprets their predicament may be somewhat coloured by the culture of the particular organization in which they

work. The second part of this chapter will focus on how an individual's moral interpretation of a situation can be distorted by organizational politics. Reification, rationalization and ego defense will be shown to be central to the suppression of moral debate within business.

By itself, the question code offers nothing to overcome any perceived obstacles to ethical behaviour apart from the goodwill and reason of those who refer to it. In Chapter Six, this has been presented as the code's strength because it captures the ideas of moral autonomy and respect for the decision maker. However, the present chapter will show that this is also its main weakness insofar as it lacks an adequate implementation methodology. Arising from this some recommendations will be suggested regarding the implementation of a question code within business.

### **8.1 Personal Considerations for Code Implementation**

How is a question code supposed to bring about change in the ethics of business? Any change arising from the implementation of a question code must originate in the will of individual employees. Therefore, the moral psychology of the individual will be an important consideration for the implementation of a code. To provide some indication of an individual's reaction to a question code, some ideas drawn from moral psychology will now be discussed, such as sincerity, moral development and ego strength.



### 8.1.1 Moral Sensitivity and Reflection

The first condition for the use of a question code is that a moral dilemma or concern must be perceived in the first place; by itself a code cannot make a person perceive a moral dilemma. Initially, the stimulus to use a code must come from the individual's own conscience or perception of conflicting interests. Invariably, questions of justice and fairness arise in situations of conflict (Hampshire, 1989). In business this could involve a conflict between the interests of stakeholders who may be either internal or external to the company. The reasoning represented in a code cannot open a person's eyes to moral concerns, but only guide their own deliberations after they have perceived a problem. Hence, questions do not show a person where to look for moral problems but only how to analyze them (at least initially). Does this imply that a code of ethical reasoning cannot raise a person's moral sensitivity? And if one is already aware of an unethical practice how can the question code help? It may help in areas of uncertainty, by reinforcing one's moral reasoning against the use of rationalizations and the transformation of an ethical problem into amoral terms.

A recent survey in the UK has criticized the traditional form of company code on the grounds that,

"... even organizations having codes of ethics which include sanctions will only alleviate the blackest of violations, while grey areas of transgression continue to persist." (Schlegelmilch and Houston, 1988, p.8)

These grey areas might be better addressed with reference to a question code to guide moral inquiry. Asking appropriate questions in moral inquiry is

essential if one is to seek a greater moral understanding. Indeed, Peter Winch has observed that,

"...questions of interpretation and consistency, that is, matters for *reflection*, are bound to arise for anyone who has to deal with a situation foreign to his previous experience." (1958, p.64)

In the first place, the motivation for moral reflection is that one may be unsure of the moral interpretation that should be placed on one's present circumstances. If one is uncertain of how existing norms may be applied to one's specific situation then it may do little good to refer to a code of ethics which simply reiterates such norms. Therefore, instead of appealing to general norms and values, one must ask questions that can address such uncertainty.

To develop our moral understanding of our circumstances, we must pose questions which explore its diverse interpretations. For instance, Winch has observed that, "Understanding something involves understanding the contradictory too" (Winch, 1958, p.65). Thus moral sensitivity can only be gained when I understand that I could have acted otherwise (but chose not to). By appealing directly to an external authority on values, such as an orthodox company code of ethics, one's moral understanding of a situation may not improve, merely one's dependence upon external moral legislators. Moral deliberation need not lead to any particular conclusions, however, it may lead to an increased appreciation of the complexity of one's social situation and one's moral interpretation of phenomena (Locke, 1987; Sloan, 1986).

Some moral sensitivity is thus a prerequisite for understanding the reasoning embodied in the question code. Yet, as a person begins to grasp and internalize the moral reasoning behind the questions they may become increasingly

sensitive to the moral dimensions of their situation. Gadamer's hermeneutic approach to knowledge illustrates this point aptly,

"A person who thinks must ask himself questions... To understand a question means to ask it. To understand an opinion is to understand it as an answer to a question."  
(Gadamer, 1975, p.338)

Although our understanding of moral concerns may be explored by asking questions, our sensitivity to these concerns may also be reflected in the conscience which guides our moral deliberations.

### **8.1.2 Conscience**

A conscience is that faculty which distinguishes humankind as a moral creature. Our conscience may be considered to be both a witness of our deeds and a guide for them (Lewis, 1960). In the former sense, it betrays a common etymology with the term consciousness - to be aware and have knowledge of phenomena. In the latter sense, conscience is a capacity for judgment, a knowledge of good and evil. If a person does not have a conscience which can be pricked, then they will be incapable of being motivated by moral reasoning.

Making some moral decisions may not be easy, either because of conflicting moral responsibilities or the weak will of those who are responsible for carrying them out. Business persons experience "moral stress" or "tension" as part of every day work (Waters and Bird, 1986). Simply exhorting particular moral values in a code may do nothing to lighten this burden and much to compound it. Therefore, the effective implementation of an orthodox code of ethics might

itself cause the members of a company far greater moral stress. This may lead to an even more blatant rationalization of moral concerns at the workplace. Such criticisms cannot be so easily aimed at a question code since it does not load particular moral responsibilities onto the shoulders of business persons.

One's knowledge of right and wrong can be explored by referring to a question code. However, where the moral burdens are felt to be too heavy, any further demands on a person may lead them to rationalize their behaviour and ignore their responsibilities. Therefore, the question of moral responsibility must be approached quite delicately. Such an approach is exemplified in the work of Erich Fromm (1949) who made a distinction between an Authoritarian Conscience and a Humanistic Conscience. On the one hand, the Authoritarian Conscience is geared towards obedience and the pleasing of external authorities. Fromm drew a parallel between the Authoritarian Conscience and Freud's idea of the Super-Ego. This conscience stands in a destructive relationship with the ego. On the other hand, the Humanistic conscience is not geared towards the external authority but towards oneself as authority; Fromm declares that it is "saying yes to oneself."

Thus, guilt is impotent as an answer to the moral problems of business. The moral tension afflicting business persons can be equated with the workings of the Authoritarian Conscience, aggressively dominating the ego. We learn to cope with the hammerings of this faculty by rationalizing away our moral dilemmas and responsibilities. The gentle voice of our Humanistic Conscience cannot be heard above this din. Fromm asserted that in modern industrialized societies we have developed a phobia about being alone. We are not used to listening to ourselves, nor do we make time for deep self-reflection. Only by critical self-reflection can we overcome the repressive faculty of the

Authoritarian Conscience. In Fromm's view, we must set time aside in order to listen to the voice of our Humanistic Conscience.

A code of ethical reasoning can be designed in keeping with the aim of listening to our Humanistic Conscience. Nash (1981) has claimed that the list of questions she designed will bring out the "private self" of a person within the business context. The code of ethical reasoning emphasizes the value of self-reflection by oneself rather than merely referring to external authorities to solve one's moral problems. This brings us to the question of how different individuals resolve moral problems, and thus how they might react to a question code.

### **8.1.3 Levels of Moral Development**

Kohlberg (1981) has proposed a theory of moral development where an individual may pass through three levels: the preconventional, the conventional, and the postconventional levels. He argued that an individual's level of moral development is directly related to, and can be measured by, the sophistication of their reasoning. Some comments will be made on how this theory of moral development can be related to the implementation of a company question code.

People at the preconventional level of moral development are motivated only by the rewards and punishments from external authorities. They follow a purely egocentric philosophy according to Kohlberg. Thus, questions must appeal to a person's own self interest if they are to motivate someone who reasons in this way. Questions could be used to remind such a person of the potential rewards or punishments for their behaviour. Business persons at the preconventional level cannot perceive moral conflict in terms of conflict

between corporate roles and other social roles, since they have not adequately internalized these roles.

People at the conventional level of moral development have some respect for social values. When a dilemma occurs for those at this level a code of ethical reasoning could be used to clarify and explore the situation. Being able to put oneself in another's shoes is characteristic of this level of reasoning. A code could prompt this kind of thinking by raising the significance of various stakeholders. Through ideal role-taking a person can learn to appreciate the interests and viewpoints of others, where all these interests are given equal consideration; in Kantian terminology, no one would be treated merely as a means to another's ends.

Moral issues are dealt with in two ways at the conventional level of development. Persons at the early stage of this level will have internalized some conceptions of their social roles. They may begin to experience conflicts between these roles, yet they have no wider social understanding through which these conflicts may be analyzed. Loyalty is considered to be the highest virtue by those at this stage. Those at the later stage will have the analytic equipment to address such role conflicts; this entails a respect for the more generalized norms of society. Both types of conflict - between roles and between norms - can be illuminated by referral to a code of ethical reasoning. The code could be used to surface any rationalizations a business person might employ, whether they be to neutralize the responsibilities associated with a role or a more general social norm.

Those at the very peak of moral reasoning, the postconventional level, may greet a question code with some enthusiasm or bemusement. It is unlikely that the code of ethical reasoning could contain questions sufficiently subtle or

sophisticated for a person at this level to relate to. Let us take the transitional stage (stage four-and-a-half) as an example of this. The transitional stage which Kohlberg describes involves reasoning that appeals neither to social values nor to ultimate moral principles. These people are in a moral limbo where obligations are viewed as arbitrary, and purely emotive. It is unlikely that any meaningful moral questions could be directed at those who reason in such a way.

Those at the highest stages of moral reasoning have developed a procedural rationality whereby moral rules are arrived at. They are not passive in their interpretations of existing social rules and values. People who reason in this way may be the least likely to succumb to any unethical demands made on them in their business role (Trevino, 1986). They may appreciate how a question code could be used as a procedural tool for arriving at moral decisions, although they will already reason with far greater subtlety than could possibly be reflected in a few written questions. At best, those on this level will be optimistic that their company is becoming more sensitive to the diverse moral concerns that permeate business relations.

Kohlberg's theory of moral development can be summarized as a decentering of the person's understanding of the lifeworld (Habermas, 1990). Thus, inquiry can be considered to be at a higher level of moral reasoning to the extent that it does not appeal to the ego. Questions which presuppose a more decentred understanding of the lifeworld than a person is currently aware of may not be understood. Such questions will simply fail to stimulate the moral reasoning of those at the lower stages of development. The implication of this is that a code must contain questions which represent different stages of moral reasoning if they are to appeal to people with different cognitive capabilities. In response to this it may be possible to formulate a question which appeals to different levels

of moral development (Hare, 1981). This has already been incorporated as a feature of the ideal question code designed in the previous chapter.

Many other characteristics of an individual's moral development in business can be identified as well as their cognitive ability. Self-knowledge and interpersonal skills may be considered to be features of a person's moral development (Maclagan, 1990). Ego strength, field dependence and the locus of control may be added to this list to explain the divergence between moral cognition and action (Trevino, 1986). Now these factors will be discussed briefly with reference to the implementation of a code of ethical reasoning.

#### **8.1.4 Sincerity and Self-Knowledge**

The ideal of sincerity is central to any discussion on self knowledge. Without sincerity on the part of the inquirer, the implementation of a question code may prove to be a fruitless exercise. The etymology of the word sincerity can give us some insight into the requirements of code users. Sincerity has its roots in the Latin words, "sine", and, "cera". "Sine" translates as "without", and "cera" as "wax", signifying the wax masks which were worn by the actors of ancient Greece. Thus sincerity is what is left over when one is no longer acting out a predetermined role. As Polonius counsels his son Laertius,

"This above all, to thine own self be true, And it must follow, as  
the night the day, Thou canst not then be false to any man."

*(Hamlet)*

This advice encapsulates the idea of sincerity in a nutshell. The concept of sincerity may be related to many of the problems associated with social role



conflict and reification that were previously discussed. Rather than merely playing the game, one may become more self critical of one's social roles and rationalizations. Nash (1981) has proposed that a question code should aim to bring out the "private self" in relation to working life. This idea of a "private self" appears to refer to a self which exists outside the socialization of the business institution. This assumes or recognizes that the private self is often repressed in one's working life. It also raises some very awkward questions concerning the reconciliation of different social roles.

The above quotation from Shakespeare presupposes that deep down there is a true self to which one can make an appeal for moral guidance. Such a philosophy of sincerity becomes problematic in the modern life where a person may hold many different social roles. It may be no coincidence that Shakespeare put these words in the mouth of Polonius, a deceitful buffoon. Which role if any reflects one's true self? Perhaps there is no such thing? The existentialists have argued that there is no true self, and that behind every mask lies yet another (Nietzsche, 1977).

Although sincerity is philosophically problematic, it will be used here in a rather limited sense which partially accounts for the concept's artificiality. There may be no objective basis on which different social roles can be considered, although a critical awareness of these roles can still be cultivated. This does not necessarily require that one must have already cleared one's mind of its roles and rationalizations, but one must be able to reflect critically on one's current way of life. The moral reasoning apparent in the ideal question code has been designed to strip away the corporate masks and rationalizations that are often adopted by business persons. This objective of freeing oneself of one's roles and rationalization's is reminiscent of John Rawls' conception of the

"original position", a concept has been central to the design of the ideal question code that was developed in previous chapter.

In the previous chapter it was also noted that we cannot be forced into sincere deliberation on moral issues. Kant (1785) believed that our capacity to act on what we perceive to be the truth made us moral creatures, and that this fact is inescapable. Whatever the case, some motivation to recognize the rationalizations that are used in the performance of our actions is a fundamental requirement for the effective use of the code. There must be a conscious attempt to overcome self-deception, without which any moral inquiry will be sterile and the implementation of a question code groundless (Sartre, 1956; Haight, 1980).

### **8.1.5 Interpersonal Skills**

Moral inquiry and debate must be sensitive to the circumstances of its various participants if they are not to find it offensive. This is concerned with the etiquette and charisma of the inquirer. If a person is able to use some common ground as a fulcrum for their own concerns, then these concerns are more likely to be taken up by others in the debate. Those lacking interpersonal skills may feel isolated and incapable of raising their ethical concerns effectively. Undiplomatic attempts at raising ethical concerns may simply lead to the marginalization of the one who speaks out. By itself a code of ethical reasoning does not provide a forum to overcome these difficulties. The problems surrounding effective moral debate within an organization will be returned to later in this chapter. For now a brief discussion will be given of the relation of a person's moral reasoning to their actual behaviour.

Sophistication of argument does not necessarily make a person good, although this is implicit in some theories of moral development (Straughan, 1986). Those with sophisticated cognitive ability can still suffer from weak-will and self-deception. In line with this criticism, Trevino (1986) has listed some impediments between moral reasoning and behaviour in her explanation of ethics at the workplace. The characteristics include a person's ego strength, field dependence, and locus of control.

### **8.1.6 Ego Strength**

Ego strength refers to the will to carry out one's convictions. The aim underlying a code of ethical reasoning is to support a person's own moral reasoning, however, this will not necessarily lead to a greater or lesser belief in one's convictions. The question code is based on the epistemological assumption that moral actions originate and are driven by the will of the individual. A question code has no external authority to provide either sanction or support for an individual's decision. Therefore, a company which implements this form of code must allow its employees to voice their moral convictions without fear of retaliation. This may be done by initiating other formal procedures for raising of ethical concerns within the company such as ethics committees and confidential reporting channels, or open forums for debate. Otherwise, only those with a great deal of confidence may be committed enough to voice their concerns and act on them. This will be discussed in greater detail in the recommendations outlined in the latter part of this chapter.

### **8.1.7 Field Dependence**

Field dependence is the extent to which a person is influenced by the attitudes of referent others. (This could include a traditional company code of ethics.) The code of ethical reasoning is a very individual orientated way of developing ethical behaviour in the business community and it can only support the moral reasoning of the individual. Too much dependence on referent others will dilute a person's ability to use the code. The moral questions outlined in the code will be useless if a business person were to disregard them every time they amounted to a challenge to the views of peers or superiors in the company.

### **8.1.8 Locus of Control**

The locus of control refers to the degree of control that persons exercises over the events in their life, or their perception of this. Those who see themselves as having the ability to affect their own lives through their choices will view their personal decision making more actively than those who feel that the events in their life are beyond their control. This has been offered as an explanation for the moral muteness of managers (Waters and Bird, 1987). Those who take responsibility for their decision making are more likely to see the strengths of a code of ethical reasoning.

So far this analysis of moral behaviour in organizations has focused on the individual moral agent. Its emphasis has been largely on the cognitive attributes of individual moral agents. This approach may be said to privilege a (male) justice orientated ethic over a (female) care orientated ethic (Gilligan, 1982). Furthermore, it is highly individualistic and neglects the significance of community relationships in the moral life of the individual (Benhabib, 1992;

MacIntyre, 1985). The bearing of these criticisms on codes will be examined to some degree later in this chapter, but will become a more pressing concern in the following chapter. Now we will turn to those aspects of an organization's culture which could impede moral inquiry.

## **8.2 Cultures of Irresponsibility**

Let us not be afraid to admit that corporate life can sometimes predispose people towards unethical behaviour. The tunnel vision promoted in institutional life is anathema to sound moral reasoning. Some recent research has explored the relationship between corporate cultures and the moral reasoning of their members. In Chapter Five some empirical studies were discussed which show how irresponsible corporate cultures have developed (Hidden, 1989; Boyd, 1989; Jones, 1988; Argyris, 1990). Theoretical models have also been constructed for the processes of moral reasoning within organizations (Argyris, 1990; Weber, 1990; Pastin, 1986; Trevino, 1986). Common to these studies is the proposition that some aspects of corporate cultures distort the perception of moral problems within these organizations. An analysis of these processes can also be used to highlight the limitations of the question code and will lead to a number of recommendations concerning its implementation. The following discussion will be focused on three concepts: reification, rationalization and organizational defensiveness.

### **8.2.1 Corporate Defensiveness**

The urge to avoid taking responsibility can be fruitfully examined in terms of ego-defense. On the whole, we like to explain our behaviour in the best

possible light to ourselves and others (Goffman, 1969). This observation of the psychology of individuals can have grave consequences in terms of organizational behaviour. Organizational misconduct can be accounted for in a variety of ways by its members; this includes the use of excuses, concessions, justifications, and refusals (Szwajkowski, 1992). These categories are distinguished depending on whether or not the behaviour in question is accepted as being harmful, and whether or not the agent in question is responsible for it. Furthermore, it appears that business persons are far more likely to attempt to justify or excuse their unethical behaviour than to admit that it was truly unacceptable on their part (Konovsky and Jaster, 1989).

This kind of behaviour is central to the evolution of irresponsible and unethical organizational cultures. The habitual defensiveness of individuals can become an institutionalized pattern of behaviour in organizational cultures. Chris Argyris (1990) aptly illustrated this point in his description of what he has termed "organizational defensiveness". This problem emerges when people intentionally send ambiguous messages to others within their organization. Then they can shift the responsibility for their message onto the other's interpretation of that message. Rather than challenging the ambiguity of the message, it becomes ignored. From that point on, the very recognition of the problem entails the acknowledgement that it has been intentionally ignored previously. Someone would have to admit to incompetence, which is potentially embarrassing to those who have been ignoring it. In this way a matter may become undiscussable within an organization, where few would risk pointing out that, in fact, "The Emperor is naked". Bringing attention to such situations may be perceived as actually making trouble. Consequently, many important concerns can become ignored as a matter of routine within an organization.

This leads Argyris to criticize the structural solutions which have been offered to prevent corporate disasters. He takes the 1986 *Challenger* Shuttle disaster as a case study for this kind of phenomenon. The roots of the disaster can be traced back to a defensive attitude on the part of both engineers and management in NASA. The engineers had voiced their concerns over the faults in the Shuttle, but they believed that their concerns were not fully appreciated by management. At the same time the engineers did not think it their place to challenge management's prerogative to make the relevant decisions, and as a consequence, the Shuttle launched despite the engineers' concerns over its safety.

The Presidential Commission investigating the disaster recommended a number of structural changes in the organization of NASA. But, as Argyris has observed, even before the accident there had been an extensive safety network in place which was ignored. The structural solutions proposed by the Commission to improve the situation still did not take account of the organizational defensive routines, which ensure that unethical actions do not see the light of day. (This argument is comparable with the critique of orthodox company codes presented in Chapter Five.)

The moral concerns of the more critically aware people within a company may be considered unacceptable by other members of that organization. Their reasoning may be considered as unrealistic, idealistic, irresponsible, and even offensive. This process of marginalization is apparent from the evidence of interviews with managers,

"Sometimes, they [managers] said, when they were candid and critical about the way others acted they in turn were censured or ostracized." (Waters and Bird, 1987, p.16)

In extreme cases a critical employee might even be perceived as a traitor to the company and dealt with very harshly. The paradigmatic case of this phenomenon is that of whistleblowing, where a person feels driven to expose their organization's misdeeds in public. These critics are usually seen as completely illegitimate within the corporate culture (Winfield, 1990). If moral criticism is suppressed within an organization then this may force a member to seek assistance and support from outside of the company in an attempt to prevent likely harm to others. From then on the whistleblower will be treated as an enemy by the company, and probably ejected from it.

In fact, whistleblowers are almost always perceived as traitors within the business community. This is clear from the enormous difficulties that whistleblowers have in finding further employment after blowing the whistle on their previous employers. They suffer the scorn of the business community no matter how good their credentials or meritorious the circumstances of their whistleblowing (Winfield, 1990). In a US survey of eighty-seven whistleblowers, it was found that all but one had experienced some form of retaliation (Soehen and Soehen, 1987). Winfield (1990) reported a similar attitude to whistleblowing amongst the UK business community. The life of a whistleblower is invariably a thankless one, resulting in many hardships including losing their homes, bankruptcy, divorce, and attempted suicide.

The precarious position of whistleblowers suggests that critical moral thinking is often treated with contempt, not only by a few aberrant companies but by the business community as a whole. The business culture appears to impose strict limits on the kind of moral criticism permitted by company employees. This poses an almost insurmountable problem for the implementation of a question code.



Defensive patterns by no means provide a full explanation of the distortion of moral concerns within business organizations. The concepts of reification and rationalization can be used to further show how moral thinking may be distorted by the very vocabulary employed within the business community.

### **8.2.2 Reification within Business**

When one speaks of an organization or a role, one is presenting a human process as a thing. Indeed, the term reification derives from the Latin *Res*, a thing. The process of reification may have profound consequences for understanding moral responsibility within the business culture. For instance, Goodpaster and Mathews (1982) have gone so far as to claim that a company is capable of its own independent moral conscience. Moreover, under US law corporations can be held subject to criminal laws, just as are individual persons - an innovation prompted by the Ford Pinto scandal in the 1970's (Gioia, 1992). Here reification is being used to attribute moral responsibility to organizations somewhat independent of their individual members. This kind of thinking is not without its moral dangers.

A person may deny their own sense of moral responsibility in business through reification. An existential view of business ethics can illuminate the problems of reification within corporate cultures. One proponent of this approach to business ethics has observed that,

"If a strong organizational culture exists which promotes and rewards strong role identification, and ethical principles for deciding role primacy are not developed and disseminated, roles

can become reified... This can result in decisions which are best according to the role, but which may be quite detrimental to organizational stakeholders and to society at large. Reification of roles results in a dangerous anonymity in which individuals no longer feel responsible for their actions." (Philips, 1991, p.794)

In the terminology of Sartre, strong corporate cultures promote bad-faith among their members. This is a kind of self-deception where one denies the identification between oneself and the actions one performs as a business person. The denial of the role is done at the same time as performing the role, and as such it is not a true denial, it is hypocrisy. The weight of moral responsibility is thus removed from the shoulders of those acting in bad-faith.

With some acuity, Goffman has shown how people can distance themselves from their social roles using explanations, apologies, joking, irony, or cynicism (Goffman, 1959). He has also pointed out that some role distance is necessary if we are to sustain several roles each in our social life. Role distance complicates moral responsibility it does not dissolve it; reification dissolves it.

When individuals arrive at work they take on their corporate role. Thus, when they encounter moral problems they are already wearing the mask of the corporate role. Business persons speak, if not think, in the corporate language. Where business preconceptions are firmly in place, the corporate culture will be at its most obdurate. Indeed, if institutional thinking was so utterly complete corporate dilemmas would be perceived in only the most distorted forms.

Some corporate cultures, those with very firmly established patterns of behaviour, may be more liable to reification than others. Strong corporate cultures have intransigent patterns of behaviour, where acceptable and

unacceptable behaviour is narrowly defined in terms of these activities. Superficially this may be what is needed for an ethical corporate culture, a clear understanding of company norms. However, strong cultures are rooted in traditions which reflect what has worked in the past, but these traditions will not necessarily be appropriate for the future circumstances (Pastin, 1986). Critical reflection is as much a part of ethics as is the enforcement of particular norms and values. As such employees must be critical of their corporate goals, traditions and roles when these conflict with other social values. A monolithic corporate culture may strangle individual moral reasoning.

Many illustrations of this can be found among past business scandals, for example, the Ford Pinto case. Here a dangerous car was marketed by the Ford Motor Company between 1971 and 1978, without regard for the value of human life. The top executives had been forewarned by engineers that the design of the car was faulty, and could be expected to lead to deaths in traffic accidents which could be prevented by some costly redesign. Ford calculated the cost of court cases and compensation arising from these "accidents" would be far less than the one-hundred-and-thirty-five million dollar cost of removing the fault in the design. Each life was deemed to be worth a total of two-hundred thousand dollars.

This equation of human life (or death) with a sum of money may be considered an extreme form of reification. It may be seen as an absurd extension of market economics, where human beings (their time and labour) are themselves valued in abstract monetary terms (Jay, 1984). The various values and qualities which may be attributed to a human life are forced into a one dimensional framework - money. Because of this, the managers involved in this scandal apparently saw no dilemma between company profit and human lives and suffering. Gioia, the manager in charge of recalling faulty cars at that time admits that,

"The unexplored ethical issue for me is arguably the prevalent case where organizational representatives are not aware that they are dealing with a problem that might have ethical overtones." (Gioia, 1992, p.338)

In the situation described by Gioia, the reification of people as instruments of the Ford corporation was so complete, that any possible moral conflicts were simply not recognized. Despite this observation it is clear that the majority of business persons do recognize some un/ethical behaviour in their companies (Waters et al., 1986; Brenner and Molander, 1977).

### **8.2.3 Rationalization within Business**

Rationalizations can be understood as the premature ending of moral inquiry (Bok, 1981). Then one must ask when moral inquiry might end properly, and thus, how it ought to end? Indeed, can moral inquiry ever come to a natural end? Nietzsche (1977) asserted that all reason is a rationalization of the will, where to bring moral inquiry to an end one must necessarily rationalize. Broadly speaking, the term rationalization can be taken to mean that a given reason is in some way unacceptable or deceitful (Bok, 1981). The processes of rationalization can be seen to operate both on a societal level and on the mind of the individual person. Rationalization works on the individual to neutralize guilt feelings and self criticism, but on the societal level it sustains an ideology which reduces moral inquiry to a matter of opinion and supplants it with purely economic and technological considerations (Giddens, 1985). In this sense rationalization can be said to end moral inquiry prematurely.

There is some research scattered in the literature of criminology and business ethics about the role of rationalizations in business crime (Cressey, 1953; Matza and Sykes, 1969; Gellerman, 1986; Konovsky and Jaster, 1989; Szwajkowski, 1992). Some studies of business ethics have focused on the fact that business persons tend to justify questionable practices in terms of the economic survival of the firm (Waters and Bird, 1987; Gellerman, 1986; Brenner and Molander, 1977). Because this is so often supplied as a justification does not necessarily mean that the economic survival of the firm is the actual cause for unethical behaviour in business. This imperative has come to the fore because it is a collective rationalization. In other words, it is not simply used as a rationalization by individual business persons, but is supplied as an ideological imperative by the business community. Even if we accept the economic imperative as overriding other community values, are we to accept it as the real reason simply because it is commonly presented as such?

US business persons see their business community as less ethical than they would like it to be (Brenner and Molander, 1977). This indicates that they are already somewhat critical of their business community, but why does this fundamental awareness not lead to a change in the ethics of business? It is telling that when they violate ethical standards business persons usually feel justified by their special circumstances (Waters and Bird, 1986). However, when looking at the misdeeds of others they promptly interpret these as inexcusable. Unsurprisingly, the majority of executives see themselves as more ethical than the average (Brenner and Molander, 1977). Rationalizations must be working furiously in this social context.

The "survival" imperative appears to be the most common rationalization in business, though it is by no means the only one. For example, the economic survival of the firm is unlikely to be appealed to in order to justify stealing from

one's own firm or sabotaging its property. An anthropological study of workplace crime has found that almost every job has its own associated fiddle (Mars,1983). Gerald Mars, the anthropologist who undertook this study, emphasized that these fiddles need not be labelled strictly unethical. Some rationalizations may be considered quite genuine and legitimate. Rationalizations for breaking social norms are built into our institutional vocabularies, such as "everyone does it", "it doesn't hurt anyone", and, "it is a perk of the job". Mars has observed that sometimes the game of fiddling has inherent values for the transgressors, far more important than any resulting material benefits. For example, alienated workers may operate fiddles in order to make their working hours more fulfilling. Therefore, rationalizations are not merely confined to unethical acts which benefit the company. Unethical practices in business must not be simplistically blamed on conflicts between the pursuit of profit and other social values.

Even the language of the business community has been criticized for the absence of any moral sentiment (Gioia, 1992; Jackall, 1988; Waters and Bird, 1987). Euphemisms may be used which deny the moral sensitivity of a situation. Stereotyping can also be employed to marginalize critics and portray them in a less than human image (Jackall, 1988). The manager in charge of recalling the controversial Ford Pinto recollected that,

"To do the job 'well' there was little room for emotion. Allowing it to surface was potentially paralyzing and prevented rational decisions about which cases to recall." (Gioia, 1992, p.382)

This is a clear case where moral decisions within a company have become rationalized as inevitable economic or technological decisions.

Critical theory has explored the concept of rationalization in order to show how the people of modern consumer societies have become gradually incapable of making moral decisions (Giddens, 1985). We are now subject to an instrumental ideology where questions of ends have been subverted by questions of means. This has become characterized by an overwhelming reliance on technical solutions to human problems, where moral choices are side stepped in the name of technological necessity. There remains no coherent body of people which can resist the dominance of technical reason in public debate. This position has been briefly summarised by Kearney (1986) in the following words,

"The new ideology subordinates all spheres of communication to the sphere of the *instrumental*. This gives rise to the reign of technical reason. Only that which is consumable, computable and therefore 'rationalizable' within the instrumental system of technical positivism is considered legitimate." (p.231)

Technical solutions, however, are in danger of neglecting questions of social justice. In order to overcome this technocratic ideology, the moral aspects of human problems must be drawn out into open debate (Habermas, 1990). Technical solutions to a problem must first be subjected to questions of justice, where those affected by a decision are represented in the decision making process. The implications of these ideological strains with regard to the implementation of a company code will be returned to later in this chapter.

This discussion has illustrated that the implementation of a code of ethical reasoning will confront many complex problems. It is faced with not only conflicting social roles, but also processes of reification and rationalization

which are part of the social and psychic structure of the modern business person. This concludes a general examination of the ways in which moral inquiry may be distorted within a corporation. Now, the implications of these processes for implementing a question code will be considered.

### **8.3 The Implementation of a Question Code**

The claim being made for the question code is that it can be used as a basic guide to moral inquiry but it does not aim to bring about any change in the one's moral character. In the light of the problems which have been discussed in the previous sections of this chapter it would appear that a question code would be of very limited consequence in practice. Its individualist focus and monological epistemology are not sufficient to address the political dimensions of business life. Therefore, in the rest of this chapter some ways of overcoming these problems will be considered, so that a question code might be used to some effective.

The implementation of a question code will be addressed in two stages. The first stage reiterates the role of pure self reflection in moral inquiry. The question code appeals directly to a person's ability to appreciate other people's interests and viewpoints. In this way it can help an individual person see through the illegitimate rationalizations that are employed within their organization. But, this leads to a more fundamental problem, how is moral critique to be activated within a repressive organizational culture, where moral inquiry is often marginalized? This latter problem highlights the methodological weaknesses of implementing a question code, therefore, other measures will be considered which are necessary to overcome the political



barriers to moral inquiry within an organization, specifically with reference to the idea of a discourse ethics.

### **8.3.1 The Private Self**

How can a code of ethical reasoning be used to confront the masks of the corporate role? The effects of a question code are initially restricted to the individual's own reasoning and conscience. Nash (1981) has claimed that a question code, of which she gives an example, could be used to bring out one's "private self" in working life. Nash has attempted to do this in her checklist by raising issues concerning one's various social roles, such as that of a family member, a member of the local community, an employee, etcetera. Nash has recognized that at times a business person must break away from the institutional thinking of their working life in order to arrive at a moral point of view. But Nash does not explain what is meant by a "private self", nor does she explain how her list of questions appeals to this private self.

Apparently, the private self refers to elements of a personality which are repressed in the performance of one's work role. The private self could refer to one's primary socialization, that is the personality which develops prior to socialization in a business institution (Berger and Luckmann, 1967). However, this explanation would neglect a person's other social roles which also might have developed after one's primary socialization; these include roles such as the husband or wife, the father or mother, the citizen, and the religious devotee - roles which are assumed alongside the business role.

The private self makes itself apparent in the business context but may be somewhat distanced from the actions performed in this arena. Some role

distance is necessary for a person to maintain several different roles in their social life (Goffman, 1959), however, this distance must not become so great so as to become insincerity or a cynical denial of one's role. Thus, one's business role may be enriched by allowing scope for the fulfilment of one's other social roles.

Other non-corporate roles can provide a frame of reference which might prove fruitful if the corporation is to be viewed in a moral light. One's various social roles provide different perspectives from which see one's responsibilities, however, this may not guarantee an ideal moral point of view.

### **8.3.2 Ideal Role Taking within a Corporate Role**

The procedures for universalizability which have been outlined in the ideal question code developed in Chapter Seven might be used to illuminate and prevent the rationalization of moral problems in business. One's behaviour is not to be judged on a different scale from the behaviour of others. This is the basic insight which underpins the theory of ideal role taking, and in fact, this insight may even be the common denominator underlying all moral theories (Mead, 1932). The interests of all those who may be affected by a decision must be given equal consideration in arriving at an ethical decision. Universalizability can uncover the hypocrisy and self-deception of those who assent to a morality and yet are not genuinely committed to it.

The questions set out in a company code could enrich a person's moral point of view in several ways. By asking the business person to make decisions regardless of their own social position one can ensure just decisions through the role of the generalized other (Chapter Seven). Some consistency and

sincerity can be ensured in decision making if they are prepared to accept judgments under conditions of universalizability.

The questions set out in a code have been designed to decentre the moral reasoning of the individual, and thus guide fair decision making. Ideal role taking can be distinguished from an insincere public relations exercise or moral rhetoric which amounts to prudential defensiveness. The views of stakeholders both inside and outside the company ought to be considered in a sympathetic light in order to arrive at fair decisions. In this way, the boundary of relevant stakeholders to business decisions could be questioned and expanded under the conditions set out in the ideal question code.

In the previous Chapter it was noted that this process of universalizability may suffer from certain epistemological and psychological flaws (Chapter Seven). For example, the generalized other, detached from its any personal motivations, provides an individual with no grounds for action which they can relate to. Therefore, moral decision making must be situated in a community of interests. The "concrete other" provides us with a conceptual link to the generalized other to give rise to a situated moral point of view and therefore action. This concrete other involves placing ourselves in our various communal roles, immersing ourselves in the lifeworld. In Benhabib's words,

"To be a family member, a parent, a spouse, a sister or a brother means to know how to reason from the standpoint of the concrete other." (Benhabib, 1992, p.10)

In order to bring out the concrete other in moral inquiry a dialogue with these others is essential (Benhabib, 1992). Therefore, the central role of moral

dialogue when implementing a question code must be discussed in greater detail.

### **8.3.3 The Toleration of Moral Inquiry at Work**

The toleration of different moral viewpoints within a corporate culture is absolutely essential if the ethical concerns of its members are to be aired freely and given due respect. Moral tensions will continue to build up within an organization if its members are afraid to voice their opinions and concerns. Therefore, a high level of toleration is necessary within an ethical company, just as it is within a liberal democracy. The moral concerns of employees or any other company stakeholder must be subjected to open scrutiny if a company's activities are to be fairly judged. Rational argument rather than political manipulation should be the way in which concerns are dealt with in a fair or ethical organization. In this way organizational defenses will become apparent and thus unnecessary.

The only way to overcome defensive routines is to allow for critical self reflection and inquiry within an organizational culture (Argyris, 1990). The stakeholders of a company must engage in what Argyris has termed "productive reasoning". This requires that company employees actively engage in the kind of moral self reflection that has been outlined in the question code in order to examine any inconsistencies or illegitimate rationalizations in their reasoning. Equally as important, the ideas and decisions of company employees must be testable in a public manner within the company.

A code of ethical reasoning fits in well with this vision of organizational development. The code could be used to encourage self-inquiry and moral self-

criticism as discussed above. This may lower some of one's immediate ego defense mechanisms, since as people learn to understand self criticism they may also learn to appreciate criticism from others. In this way, embarrassment and loss of face will be a less acute part of the process of criticism.

Of course this is to little avail in a company which will not tolerate moral criticism. Existing organizational defenses work against culture criticism and will therefore impede the implementation of the code of ethical reasoning. The toleration of different moral viewpoints must be emphasized in the corporate culture. Otherwise, moral criticism might merely provoke greater defensiveness and impression management. In order to aid code implementation criticism must take on a public dimension within a company.

Criticism is more likely to be received well when the critic is able to invoke local values (Walzer, 1987). Local values can be appealed to as a fulcrum for motivating change. However, it may not always be possible to do this, particularly where the traditions and values of a company are intractable. Sometimes to motivate change the critic may eventually have to take sides in a conflict, as in the case of the whistleblower (Walzer, 1987). This requires an active opposition rather than emotional and intellectual detachment, emphasizing the great political difficulty in motivating change from within a company.

Toleration is one of the underpinning principles of modern liberal democracy. It would be hypocritical to claim we live in a democracy when we are not even free to speak out at our workplace, nor participate in the determination of our own destiny (Donaldson, 1989). But industrial democracy alone will not necessarily lead to candid and rigorous moral debate within a company. This

takes us to the final concern of this chapter, that is, how moral debate can be brought to maturity within a corporation.

### **8.3.4 Corporate Channels for Moral Inquiry**

For an organization to be considered ethical, its members must believe that their moral concerns will be dealt with fairly. It would be fruitless to implement a question code within a company where moral debate was marginalized and little criticism was permitted from its members. Surely a question code would not be taken seriously in such a culture? An organization could communicate its commitment to ethical concerns by implementing mechanisms whereby these concerns could be voiced, such as open door policies, participation policies (industrial democracy), ethics committees, hot lines, confidential reporting processes, and forums for debate. A recent survey of UK companies reported that:

"Over half the survey companies estimate that ethical concerns are never raised or raised infrequently; a third say they are raised daily or frequently. Companies who report relatively high frequencies appear to have more mechanisms for enabling ethical issues to be raised. Nearly two-thirds of the higher frequency companies have one or more committees which can discuss ethical issues." (Winfield, 1990, p.19)

This indicates that ethical issues which may lie suppressed within organizations can be surfaced through forums for discussion. The existence of such mechanisms signals that ethical concerns can be raised publicly without fear of retaliation from within the company. Confidential reporting channels could also

be implemented to deal with the most sensitive moral concerns within an organization. However, this will not necessarily raise the general consciousness of the whole organization.

Therefore, several steps may be taken in order to disseminate a more rigorous form of moral reasoning throughout an organization's culture. Essentially, company members must be given some space in their working life in which they can deliberate on moral concerns. An ethics training programme might provide a forum on which to develop moral inquiry within a company. A question code could be introduced to all company members through these education programmes. These programmes commonly encourage participants to consider different points of view when deliberating upon their situation, such as the views of one's family or one's friends (Otten, 1986). The ideal role taking embodied in a question code might also be explored through such exercises.

These initial steps may remain somewhat divorced from a person's everyday working life. Indeed, the most telling method for encouraging moral inquiry is if it is accepted in open debate within a company, as part of both the formal and informal organization. Therefore, forums for ethical debate can be recommended in order to overcome the methodological weaknesses involved in implementing a question code. In these forums groups members should be able to raise their moral concerns, and expect these concerns to be respected by others within the organization. Furthermore, company policy must be able to withstand scrutiny within such forums, or else be revised. The potential for moral debate within a company will now be explored in greater depth.

### **8.3.5 Discourse Ethics**

Business ethics has been criticized for paying too little attention to praxis because it lacks the research effort into methodologies for implementing ethics in the business context (Nielson, 1993). The idea of the question code also suffers from such methodological weaknesses. Although the code has been designed as a guide to moral inquiry, by itself it does not provide any mechanisms for translating moral understanding into action.

So far, the discussion in this Chapter has highlighted the weaknesses of relying on change arising solely from the individual. To account for these problems some channels for debating ethical issues openly must be available within a company so that moral thinking may be engaged in and acted upon. The research into discourse ethics will be drawn upon to provide a methodological support for the implementation of a question code.

Moral inquiry must not be confined to a purely self-reflective process. It is arrogance which allows us to believe that we know what others' real interests are without debating these points with them (Habermas, 1990). How can the views of others be adequately considered if one resorts only to one's own thoughts rather than engaging in a discourse? Respect for the other requires that the other's voice be heard (Benhabib, 1992; Kant 1785). To account for this a discourse ethic contains the procedure for universalizability within the procedures for discourse, rather than as a procedure for self-reflection.

The question code encourages ideal role taking on only a monological level. One imagines what the relevant interests are and based on this what will be fair to all those concerned (Rawls, 1971; Hare; 1981). Communicative ethics elevates this kind of thinking to a dialogue where those concerned are present



in debate. This provides a forum upon which the political barriers to change in an organization can be overcome (Habermas, 1990).

A number of constraints must be satisfied for a moral debate to approach its rational ideal (Habermas, 1990; Kettner, 1993). A very brief summary of these constraints will be given here by way of illustration.

- 1) *The generality constraint*: participation in the discourse must be as wide as possible, and present the views of all the affected interest groups.
- 2) *The autonomous evaluation constraint*: participants must be allowed to introduce and challenge any assertions and any interests stated.
- 3) *The role taking constraint*: participants must be able to adopt a hypothetical stance to the interests of themselves and others. This constraint involves the same rationality as embodied within the question code (universalizability).
- 4) *The power neutrality constraint*: a participant should not appeal to any hierarchical authority to legitimate their argument.
- 5) *The transparency constraint*: the goals and intentions of the participants must be exposed in order to examine shared ends, the discourse should not be founded on deceit (Kettner, 1993).

The paradigmatic form of moral reasoning represented in the question code may not be fully realized without such a rigorous dialogical framework.

However, in cases where people are constrained from participating in a dialogue with other stakeholders, the question code may retain its potency as a guide to moral self reflection. This understanding of a discourse ethics can be linked directly to the notion of moral development discussed earlier in this chapter. Apparently, only those people at the highest level of moral reasoning (postconventional) will be able to realize the full potential of a moral discourse (Habermas, 1990).

When implementing a question code without considering moral discourse, only the third constraint, role taking, may be considered morally relevant. The other four constraints serve to highlight the methodological weaknesses of a purely monological approach to moral reasoning. These other constraints reflect the possibility for rationalization and ideological distortion in actual moral discourse.

The significance of these constraints for moral decision making in an organization can be clearly illustrated by referring to the Ford Pinto case once again (Gioia, 1992). In this case Gioia, who was in charge of recalling faulty vehicles at Ford, may well have felt justified according to the role taking constraint. This speculation is supported by the fact that Gioia himself owned a Pinto, and later sold it on to his sister. It would seem that these are the actions of a man who either did not perceive the dangers of the Pinto, or who accepted the risks involved and expected others to do likewise. He recalled that

"On practical grounds, I recognized that people implicitly accept risks in cars." (1992, p.382)

On a very rudimentary level this statement is a sign of some sort of role taking and moral reasoning. But this was obviously not enough for a sound moral

decision. Gioia himself admits that he did not go through a very rigorous line of moral reasoning. Initially he did not know of the damning pre-test crash results, nor the company's cost benefit analysis of the Pinto's danger to human life. This information was restricted within the company by the top management of Ford. This deplorable case highlights the dangers of a monological form of moral reasoning. Information was restricted within the company so that consumers could not decide what risks might be involved in buying a Pinto. This weighty decision was taken by Ford's managers on behalf of the company's customers. Furthermore, it is very unlikely that the cost benefit analysis that these managers applied to the Pinto would have been acceptable to many of the stakeholders whom were involved, especially Ford's customers. Obviously, this situation is far from the ideal of rational discourse expounded by Habermas, since it satisfies few of the constraints for an ideal moral discourse as listed above. Although Gioia does appear to have engaged in a crude monological form of moral thinking, a moral debate did not ensue. However, it is only through a moral debate on an organizational level, that any moral reservations concerning the safety of the Pinto would have been taken seriously. The horrendous consequences of Ford's decision might then have been avoided.

The idea of a discourse ethics has been largely neglected in the area of business ethics, both by the business community and by academics. Nevertheless, this may prove a fruitful way forward in implementing business ethics. This chapter has demonstrated some of the burdensome problems which surround moral thinking within business. Furthermore, it appears that a code of ethics alone will do little to confront the problems of reification and rationalization since company codes also rest on these ideological processes which have become embedded in the culture of the business system. The strength of a discourse

ethics is that it approaches moral problems on a communicative level, and can therefore cultivate moral self reflection on an organizational level.

In terms of business ethics, this dialogical methodology can be used to enrich the moral life of business persons in a number of ways. For example, a dialogical approach to business ethics has been called for in order to reduce the "moral stress" or "moral tension" associated with dealing with moral problems at the work place (Waters et al., 1986, 1987). In fact, this approach to decision making has also been proposed in order to prevent corporate disasters, such as the nuclear meltdown at Chernobyl, and the environmental devastation caused by the oil tanker the Exxon Valdez (Bowen and Power, 1993; Kettner, 1993). It is hoped that the challenge to the diverse interests and opinions implicit in a discourse ethics will uncover the kind of instrumental reasoning which leads to such disasters.

The work on discourse ethics has been partially adapted to the field of business ethics by Payne (1991). He has advocated the establishment of ethical forums or ethical dialogue groups in companies for the discussion of moral concerns in business. These groups must aim at power free communications in order to represent the interests of all stakeholders fairly. Under these ideal conditions the assumptions underlying the positions of various stakeholders can be challenged and the validity of their moral claims scrutinized. The dialogue groups should involve representatives from stakeholder groups both internal and external to the organization. Payne has also recommended that an ethics consultant be used, who has a deep knowledge of the organization, in order to reconcile a dialogue group with the existing power relations within a company.

In practice the communicative approach to ethical problems at the workplace is not common (Centre for Business Ethics, 1986; Winfield, 1990). Winfield

(1990) has attempted to gauge the current state of affairs in British industry by examining the formal mechanisms available for raising ethical issues. Of the fifty-three respondent companies (510 sample size) nineteen had formal employee participation policies. Most of these companies also had some form of code of ethics. These projects, the majority of which are not monitored, would by no means meet the sophisticated criteria which Payne (1991) or Habermas (1990) have set out for an ethical dialogue group. However, as Payne has suggested, these existing measures can be improved upon and gradually transformed into operating ethical dialogue groups. Unfortunately Winfield also found that,

"relatively few companies want to respond more constructively [to ethical concerns] and even fewer want better mechanisms [for raising ethical concerns]" (1990, p. 19)

This indicates that in the present climate discourse ethics are not likely to be taken seriously within UK industry. It seems that where there is a commitment to raising the ethical awareness of a company this is viewed in a very restricted sense. In this light Winfield recommends that existing mechanisms such as professional organizations and trade unions can be used as facilitators for raising ethical issues in UK business. This would require less of a cultural transformation for the business community. The implementation methodology for a question code is summarized in the table below.

## **Summary of Implementation Methodology**

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### **AIMS**

- \* Greater moral autonomy of business persons. They can take responsibility for their moral interpretations of their situation and their moral choices.
- \* Moral respect for all those persons whose interests are affected in some way by the company's activities.

### **FORMULATION STAGE**

- \* Ethics training programme for all employees
- \* Dissemination of the question code too all employees

### **ENFORCEMENT STAGE:**

- \* Open Door Policy to promote an open and candid company culture
  - \* Ethics Committee comprised of members taken from across the organizational hierarchy
  - \* Ethical Dialogue Group/Open Forum
- 

figure 6.

## **Summary and Conclusions**

An organization could implement a question code in order to bring out "the moral point of view" of its members. The discussion in this chapter has given some explanation of the deeply rooted difficulties which may be involved in this process. Incidentally, this has given some indication of those organizations that are most likely to accept or reject the ideal form of moral thinking set out in a code. Subsequently, a number of recommendations have been made based on these observations.

The chapter began with a discussion of the significance of moral development for the implementation of a question code. The way in which a code is used will be somewhat dependent upon the interpretive abilities of the individual. The second part of the chapter has focused on how the moral interpretation of business life can be distorted within a company. Reification, rationalization and ego defense were shown to be central to the suppression of moral thinking and discourse within business.

Other than the individual's own goodwill and reason, the code offers nothing to overcome any perceived obstacles to ethical behaviour. The lack of an adequate implementation methodology is one of the code's main weaknesses. By itself, the code does not contain any method for ensuring that moral understanding is translated into action. The toleration of different moral viewpoints is required within a company if the question code is to be taken seriously by those who work in that company. Specifically, the approach of a discourse ethics has been recommended in order to institutionalize the kind of ideal moral reasoning embodied in the question code. In these forums for

debate, issues could be raised by any member of the company, who would have the opportunity to challenge company policy according to ethical criteria, such as that set down in a question code. This dialogical approach provides a methodology which can account for the political problems of moral inquiry within organizations.



## CHAPTER NINE

### BUSINESS CODES: ENLIGHTENMENT OR VIRTUE?

"I had sooner play cards against a man who was quite sceptical about ethics, but bred to believe that 'a gentleman does not cheat,' than against an irreproachable philosopher who had been brought up among sharpers" (C.S.Lewis, *The Abolition of Man*, p.34)

#### **Introduction**

What ought I to do? How should I live my life? These two questions are fundamental to ethics. The contention of this chapter is that business ethics has been primarily concerned with the former question, but concern for the goodlife as a whole has been largely neglected. This is due to the fact that business ethics has emerged in liberal societies, drawing on Enlightenment interpretations of morality. This observation is of direct importance to the present thesis, not only because of its bearing on business ethics as a whole, but also because codes of ethics have played a very special role in the liberal tradition.

An analysis of the very concept of business ethics can provide some insights into the current interest in company codes of ethics, both within academia and in business. That business ethics, in its current form, is a worthy pursuit has so

far gone unchallenged in this thesis. Yet, at this late stage this assumption will be challenged in order to reflect back on the movement of this thesis.

If we are to grasp the nettle of business ethics tightly we must ask the question, "How should I live my life?" This question is central to the cultivation of virtue and pursuit of the goodlife. And this opens up a rather disquieting interpretation for the recent appearance of company codes of ethics. Ethics in contemporary liberal society is understood largely in terms of moral codes, where moral problems are resolved through the increasing elaboration of these codes. There is little concern for the formation of people's ethical character within the modern institutions. This may be particularly true of the business culture, where one's activities are strictly regulated within the technology of formal organization (Ladd, 1970). Without considering the character of business persons and the physical and intellectual practices through which this is cultivated, it is difficult to see how the business community could be persuaded to behave more responsibly. In this light, the emphasis on business codes of ethics can be seen as a sign of the times, but a sign which glosses over the knotty ethical problems at the heart of specific modern institutions.

The Enlightenment tradition in philosophy underlies much of the current work on business ethics. Armed only with some disembodied intellectual procedure, it is hoped that business persons can conquer all their moral problems. In fact, this characterizes the original movement of this thesis, which builds on a critique of orthodox company codes of ethics in order to construct an ideal company code in question form.

Solutions to the problems of business ethics presume a philosophical and social tradition. That includes the codes of ethics which have been the subject of this thesis. However this tradition will be found to be inadequate in a number of

important respects. The Enlightenment tradition in business ethics, in which codes are rooted, may be considered insubstantial in the light of a virtue ethic (MacIntyre, 1985, 1988, 1990). Some doubt will be cast on the use of disembodied intellectual procedures, such as Rawls' "veil of ignorance", for solving the moral problems of business.

The methods provided by business ethics cannot form moral persons, neither do they take account of the role of institutions in cultivating moral persons. Without some common conception of the good, it may not be possible for business persons to find answers to their moral problems. Therefore, what is to be done in business must inevitably be decided in terms of power not ethics.

The following argument will portray business ethics as a symptom of the inability of moral philosophy or liberal pluralist societies to provide answers to their own moral problems. Company codes of ethics only serve as a mask for the arbitrariness involved in making moral decisions in business. Attempts to redeem business ethics from this pessimistic hypothesis will be considered in the latter part of this chapter.

## **9.1 Business Ethics and the Enlightenment**

At the start of this thesis business ethics was defined in broadly Kantian terms. Whereas the business relationship involves treating people as a means to an end, moral relationships entail the consideration of peoples as ends-in-themselves. Kant's solution to the problems of ethics was to formulate the Categorical Imperative, whereby any rational person can discover whether or not a particular action is moral (Kant, 1785). It involves a process of universalization, or in Kant's words,

"Act only on that maxim through which you can at the same time will that it should become a universal law." (Kant, 1785, p.84)

This kind of approach to ethics is prevalent in books on contemporary business ethics, where moral problems are usually addressed using some kind of procedural rationality. For example, Donaldson (1989) has advocated the principles of autonomy, pluralism and the Golden Rule (universalizability) to solve the problems of business ethics. Many others have similarly advocated the use of procedural rationalities, such as contractarianism and utilitarianism, for diagnosing moral problems within business (Beauchamp and Bowie, 1988; De George, 1990; Cederblom and Dougherty, 1990). Company codes of ethics have also been justified in terms of utilitarian, contractarian, and neo-Kantian moral frameworks (L'Etang, 1992; Starr, 1983; Cederblom and Dougherty, 1990). In the previous chapters of this thesis these ideas have been extended to the formulation and implementation of company codes of ethics.

The underlying movement of this thesis has been to incorporate a stronger notion of the moral autonomy of business persons into company codes of ethics (Chapter Six). This is coupled with a respect for all those persons who may be affected by a company's business activities. Indeed, the method of reflection embodied in the question code developed in earlier in Part Two requires the decision maker to treat others equally as autonomous moral agents worthy of respect. This approach to business ethics can be traced back to the Enlightenment period of the Eighteenth Century, particularly in the work of its most renowned representative, Immanuel Kant. It is true that the philosophers of the Enlightenment, such as Rousseau, Hume and Kant, developed very

different moral frameworks, however, they did share many commonalities such as their support for the democratic revolutionary movement in Europe and America.

Another more profound similarity between these philosophers was their conception of human nature and its relation to ethics. Our understanding of human nature and ethics was radically altered with the advent of the Enlightenment and disastrously so according to MacIntyre (1985). Before the Enlightenment a broadly Aristotelian schema held sway over much of Western thought. Under this ancient framework ethics provided the bridge between two states of being, that is, man in his untutored state and man-as-he-could-be-if-he-realised-his-*telos* (MacIntyre, 1985). Thus an action could not be understood as an isolated effect of a person's will, but only as a part of a whole pattern of conduct which leads towards some ultimate *telos* or purpose. The Enlightenment changed all this by reformulating ethics as something that was necessarily detached from human nature, and thus could no longer be used to cultivate a person's ethical potential. This is characterized in Hume's philosophy by his assertion that moral reason could play no role in the education of the passions, and in Kant's philosophy by the strict opposition between human inclinations and the moral law (MacIntyre, 1985, p.49).

In what follows, business ethics will be analyzed as an extension of this particular liberal tradition in moral philosophy. It will be suggested that this tradition does not adequately confront one of the central questions of ethics, that is, "How should I live my life?" This impoverished understanding of ethics is also reflected in the institutions of contemporary liberal society. Such an iconoclastic thesis presents a challenge to the notion of business ethics itself. Business ethics might be enriched by drawing on the ideas of a virtue ethic. Consequently the worth of any kind of code of ethics must be re-evaluated.

## 9.2 MacIntyre's Disquieting Suggestion

What if the moral philosophy of the Enlightenment cannot solve the moral problems of modern liberal societies? The utilitarian, deontological and contractarian theories which underpin so much of the business ethics literature may in fact be part of the problem. The description of business ethics that such theories offer may only serve to obscure deeper problems concerning the rationality of our institutions.

Could it be that the moral arguments of the eighteenth and nineteenth centuries have led to a state of moral incommensurability (MacIntyre, 1985)? During this period several forms of moral argumentation were developed, primarily rights theories and utility theories. But, the concept of a right can be used for quite different purposes from that of utility. By arguing in terms of social utility one may be unable to engage in rational debate with another who believes in the priority of their rights, and vice versa. Therefore, the Enlightenment appears to have produced a state of moral incommensurability in philosophy (MacIntyre, 1985). Furthermore, this philosophical movement cannot be detached from its social context; thus moral incommensurability is also reflected in the institutions of contemporary society:

"the culture of bureaucratic individualism results in their [modern societies] characteristic overt political debates being between an individualism which makes its claim in terms of rights and forms of bureaucratic organization which make their claims in terms of utility" (MacIntyre, 1985, p.71)

Genuine moral debate is not possible under these incommensurable forms of moral argumentation; they justify moral priorities in different ways. From this state of affairs it is unsurprising that commentary on moral disagreement has come to the conclusion that it is a mask for an irrational will and power (Goffman, 1959; Nietzsche, 1990). Modern liberal societies do not have the moral resources to resolve issues rationally or to raise moral citizens, and so emotivism has arisen to deal with the problems presented by these failures of the moral theory. In emotivist theories the distinction between rational and non-rational discourse has been lost (MacIntyre, 1985).

The emergence of emotivist moral theory can also be associated with the impoverished ethics which pervades modern social institutions. The business culture itself may be considered to be the main host for this impoverished understanding of humanity (MacIntyre, 1985; Smail, 1993).

### **9.3 Management within a Liberal Society**

MacIntyre (1985) has identified three professions which can be closely associated with the moral decay of liberal society: the manager, the therapist and the rich aesthete. These professions have all played a central role in the disintegration of moral communities within contemporary liberal society. For example, therapists have to some extent replaced the role of friends in discussing one's troubles. What was once the role of a friend is now a money-making activity, sucked into the business institution (Smail, 1993). An Aristotelian analysis of this movement would see this as quite disastrous, since friendship is one of the fundamental building blocks of a moral community and virtuous character (Aristotle, 1953). By removing some of the relations essential to moral community to the professional arena, it follows that some of

the bonds which maintain the community and the moral vigour of its members will dissolve.

The members of these professions may be described as the *characters* of modern society, where a character is a social role which morally legitimates a mode of social existence. The character is the social role by which citizens measure themselves. Among these characters, it is especially the manager who has come to embody the moral poverty of modern society,

"The manager represents in his *character* the obliteration of the distinction between manipulative and non-manipulative social relations..." (MacIntyre, 1985, p.30)

In this state of affairs, managers can only consider the means for accomplishing tasks, but not their moral implications - the ends of a decision are treated as given. Managers do not have the authority to discuss or decide the ends of their decisions. This behaviour is part of a culture where, in an effort to retain the individuality and autonomy we have come to prize, we must manipulate others. Management claims the authority to control labour, and this authority rests on a further claim to technical expertise. This state of affairs becomes particularly dangerous when managers put on the appearance of moral neutrality:

"They are seen by themselves, and by those who see them with the same eyes as their own, as uncontested figures, who purport to restrict themselves to the realms in which rational agreement is possible - that is, of course from their point of view to the realm of fact, the realm of means, the realm of measurable effectiveness." (MacIntyre, 1985, p.30)"



That is not to say that managers do not experience moral dilemmas; only they experience them in a particular form and dispose of them accordingly. If the problem they confront is very sensitive then they might seek the advice of another manager, or even a therapist. The danger of these relationships is that the individual's moral choice is forsaken for the interpretive skills of some other professional, working within the power relations of that particular institution (Chapter Three). For evidence to support this argument MacIntyre has cited some of the most acclaimed management texts, those of Likert (1961) and March and Simon (1958). Likert emphasized the need for managers to influence the motives and behaviours of their subordinates. More subtly, March and Simon defined the work of the manager as that of ensuring that subordinates argue from premises which will produce agreement with the manager's own prior conclusions. Common to these texts is the definition of management as controlling behaviour and suppressing conflict. This has already been identified as a possible ideological function of the orthodox company code of ethics (Chapter Three).

In practice the manager is not this ideal manipulator because the expertise claimed by management must be a masquerade (Anthony, 1986; MacIntyre, 1985). Such expertise in social control is not possible; societal relations and organizations are too complex for accurate generalizable laws. Organizational predictability and organizational effectiveness exclude one another, since they have contradictory requirements (MacIntyre, 1985). Of course, managers are likely to reply that they do not claim a great deal of technical expertise or manipulative skill, yet they can still claim to be experts in their limited field. MacIntyre's response to this modesty is to the point, such claims do not provide the management profession with grounds for the degree of power that they have achieved today within both public and private organizations.

In the shadow of MacIntyre's critique the prospects for business ethics appear dim. Managers are portrayed as the main agent of moral decay, and hence are unable to become the agent of repair. The Enlightenment theories of morality have merely lead to the current state of incommensurability in moral debate. Managers cannot learn to be "good" managers from these approaches. Therefore, moral concerns could only appear as rationalizations of the will in a manager's considerations, even after a course in business ethics.

#### **9.4 The Poverty of Ethical Codes**

This criticism of the Enlightenment can be applied equally to the use of both orthodox company codes and question codes. Under this interpretation of the history of ethics, the rise of written codes of ethics in business is indicative of the need that business persons feel for moral guidance. However, as suggested above, there is no clear moral framework in liberalism on which to ground business activities (MacIntyre, 1985, 1990).

Technological innovations have opened up new possibilities for humankind, and thus generated new moral issues to be debated. But the liberal pluralist societies are incapable of providing professionals with the moral grounds for resolving or debating these knotty issues. Liberal society has no adequate shared morality on which to ground its debates, and yet the problem of immediate action cannot allow these issues to go unsettled. Formal codes of ethics are one way in which choices are made and dilemmas resolved, with or without rational justification. It is the arbitrariness of the resolution of moral problems which both philosophical and professional rhetoric is used to conceal.

The survey of company codes undertaken for this thesis has uncovered little evidence with which to dispute this pessimistic view (Appendix). This evidence shows that codes appeal to a mixture of rights (usually laws), deontological principles, and social utility. But, as MacIntyre has pointed out, these are incommensurable forms of moral argumentation. This appears to support MacIntyre's claim that there is no underlying moral schema available for the rational resolution of moral issues in these codes. Furthermore, the presence of a managerial and corporate ideology is undeniable in these codes (Chapter Three). Again, this supports MacIntyre's suggestion that, in the absence of a moral foundation power cannot be exercised with any clear legitimacy.

Typically, company codes offer only very vague statements of responsibility. When responsibilities are stated they are usually of uncertain application; company priorities remain unclear. The responsibilities which are made clear tend to be either legal requirements or of direct economic benefit to the company (Chapter Three).

The moral poverty of company codes is also apparent in their implementation strategies. Company codes usually cast management in the role of a moral authority in some way or other (Chapter Three). This is expressed in both the contents of company codes and their implementation. In the majority of cases codes are formulated and enforced almost entirely by management, and are thus prone to a managerial ideology. This is further reinforced in the texts of the codes, where, for example, employees are often commanded to seek the advice of their manager if they are confronted with a moral conflict. This prescription presents a number of dangers to the moral autonomy of people within the business context. The subjects of such codes are in danger of abandoning their moral choices to the authoritarian hierarchy. In such a situation, business ethics performs a primarily normalizing function, which is itself supported by the

professional structures of business institutions. This point will be further elaborated below.

Therefore, the written codes of ethics which are becoming increasingly common in business have not provided a solution to the problems of business ethics; they are themselves a symptom of the problem. They represent and cover up the moral poverty of liberal pluralist societies and Enlightenment philosophy.

Must we accept MacIntyre's diagnosis of the moral problems of modern liberal society and its pessimistic implications? His work has been taken quite seriously in the field of philosophy and political theory (Rorty, 1991; Bernstein, 1985; Benhabib, 1992). Considering the implications of this thesis it is surprising that it has received so little attention in the business ethics literature. Journals continue to pour out articles based on the Enlightenment rationalities, rationalities which are redundant if MacIntyre is right. In general, virtue theory has featured relatively little in this literature.

If business ethics is not just a facade, glossing over the moral poverty of liberalism, then it must be critical of its own project. In this light, time will be well spent developing a response to MacIntyre's argument. Therefore, in the following sections some responses to this critique will be considered (Donaldson, 1989; Anthony, 1986). And arising from this discussion several recommendations will be outlined concerning future research into business ethics, specifically in relation to company codes of ethics.

## 9.5 A Critique of Liberal Business Ethics

In *Key Issues in Business Ethics*, John Donaldson has outlined a liberal pluralist approach to business ethics. This provides one of the most rigorous attempts at mapping out a direction for business ethics theory and practice. In this book the principles of pluralism, reciprocity, and individual autonomy are given as the grounds for business ethics practice. Although, he admits that no systematic epistemology underlies the choice of these particular concepts Donaldson claims that they are essential to the liberal democracies. In conclusion to *Key Issues* ten procedures are outlined as a vehicle for these moral ideals; these include formal codes of ethics, openness in decision making, relinquishing or modifying bureaucratic organizations, more research into business ethics, and making whistleblowing unnecessary. Underlying this approach to business ethics is the belief that,

"All that is needed is a readiness to operate procedures in such a way that it is open to rational discussion and amendment of decisions and practices when convincing arguments are put. It is always possible, of course, that managers can refuse to recognize a convincing argument when they are confronted with one. It is common enough for people to use reasoned argument up to the point at which they are likely to have a decision go against them, and then abandon pretence at rationality and assert hierarchical authority or to resort to manipulative games."

(Donaldson, 1989, p.203)

Little of the pessimism of MacIntyre's thesis can be detected in this passage. Indeed, the significance of virtue theory for business ethics is not explored in this work beyond a rejection of MacIntyre's iconoclastic ideas.

In *Key Issues*, MacIntyre is accused of historical relativism, which is somehow taken to be a criticism in itself. MacIntyre has himself acknowledged that to escape relativism completely would entail "the successful resuscitation of the Kantian transcendental project." (1985, p.277) Does the label of historical relativism adequately capture this painstaking development of virtue theory? MacIntyre does allow that some kind of moral objectivity is only possible within a tradition. Either way, the label of relativism does nothing to undermine MacIntyre's criticism of liberal pluralist society or Enlightenment philosophy.

In his presentation of MacIntyre's thesis Donaldson is in danger of missing some of the essential features of the argument. He presents MacIntyre as saying that the Enlightenment project fails simply because of its failure to find a single moral system upon which everyone can agree. This simplifies MacIntyre's thesis to the point where it's only proposition is that moral debate is fruitless without universal assent to one theory. But, in fact, the core of MacIntyre's argument is that the Enlightenment project fails on its own terms (Nietzsche, *The Gay Science*, maxim 335).

The Enlightenment project can be criticized on both epistemological and psychological grounds. The very foundations of this philosophical approach prove slippery. Enlightenment philosophy has set out to prove that which it supposed it already knew in advance - morality (Nietzsche, 1990). Working in this way, how is rigorous thought possible? The rational ground of morality is thus only a form of faith, whereas,

"the real problems of morality... only come into view if we compare many moralities." (Nietzsche, 1990, p.109)

It is this understanding of morality which underpins MacIntyre's thesis. In this way he has attempted to show that our liberal conception of morality is impoverished by comparing it with a premodernist Aristotelian account. Furthermore, he builds on Nietzsche's critique of Enlightenment morality in order to highlight the gaping holes within this liberal philosophy. Not only is liberalism impoverished compared with Aristotelian virtue theory, but it fails by its own standards of rationality. By no means is MacIntyre attempting to formulate a morality to which every rational agent would assent, or at least refrain from criticizing.

Donaldson's argument closes with a defense of business codes of ethics. Codes can be used to represent the legitimate interests of those people who are affected by them - a code that does not do so is simply a bad code. But, again, this neglects some of the central features of MacIntyre's thesis. What is legitimate will be defined somewhat differently depending on one's particular choice of moral theory, a choice which will be further dependent on the use one wishes to put it to. Therefore, what are described as legitimate interests under one moral theory, say utilitarianism, may not be considered important under the description of another, say a rights theory. These theories can be followed quite rationally by persons engaged in an argument without ever swaying either side. Neither side can win nor lose. The consequence of this state of affairs is that, in the case of immediate action, power must inevitably be resorted to in order to resolve the conflict.

When a decision is likely to go against an interest group, reasoned argument may be abandoned and thus power resorted to (Donaldson, 1989). This observation need not be disputed, but, it does not go far enough in outlining the limits of reason and the domains of power. Due to moral incommensurability,

reasoned argument necessarily fails and power must be resorted to in order to act. So long as there is no grounding in a tradition, the virtues, and a telos, morality can only become rationalizations of the will. The underlying rationality of Enlightenment morality does not and cannot adequately deal with power conflicts.

## **9.6 In Defense of a Liberal Ethics**

Even a liberal may agree that the character types of liberal democracies are, "bland, calculating, petty, and unheroic" (Rorty, 1991a, p.190). Such open acceptance of the moral poverty of liberal societies is quite disconcerting for the practice of business ethics. However, Rorty does not believe that this observation requires a total rejection of liberalism as a way of life. He has defended liberalism on the basis that one should be free to pursue one's own idea of the good life. Therefore, his first argument is that a concern for one's character should be confined to one's private life and should not be a matter for political debate (Rorty, 1991a). Rorty also defends liberalism on a second count questioning the epistemological grounds upon which MacIntyre's thesis rests,

"It is no more evident that democracies are to be measured by the sort of person they create than that they are to be measured against divine commands. It is not evident that they are to be measured by anything more specific than the moral institutions of the particular historical community that has created those institutions." (Rorty, 1991a, p.190)



These arguments are particularly important for the political implications of MacIntyre's virtue theory. Under this defense of liberalism, the relegation of virtue to the margins of society is not considered too high a price to pay for the political freedom embodied in this form of society. In the eyes of a liberal, the price of virtue may be a form of moral fanaticism and intolerance, which could arise as a consequence of making the goodlife a public issue.

Thus, Rorty's comments may be useful in order to temper our interpretation of virtue theory and beware of the dangers of moral fanaticism. The extent to which persons can be concerned with their own moral character, and at the same time be tolerant of others is open to question. On the one hand, a virtuous character cannot be separated from its moral community and a common conception of the goodlife (MacIntyre, 1985). Therefore, one cannot so easily separate one's public politics and private ethics as Rorty seems to suggest. On the other hand, a rejection of liberalism and its pluralist philosophy is not without its dangers. The development of a tight moral community can lead to political intolerance, and an overeagerness to ostracize others who lead a different way of life. To avoid this danger the liberal may assert that the cultivation of one's moral character ought to be a purely private affair (Rorty, 1991a). The highest virtue of the liberal is that of toleration in public life, and irony in private life (Rorty, 1989).

Underlying this debate there appear to be divergent understandings of ethics and freedom. The liberal is concerned with a political freedom, the right to free speech, to vote, to pursue one's own interests, and so on. However, an alternative conception of freedom is bound up with the character of the individual person. This entails the freedom to become a certain kind of person, for example noble (Nietzsche, 1977), or virtuous (MacIntyre, 1985), or beautiful (Foucault, 1986, 1985, 1984).

There is a danger that either type of moral freedom will be sacrificed at the expense of the other. So, it might be a mistake to confine one's concern for character formation entirely to private life, because it cannot be denied that a person's character has an impact on public moral life, and vice versa. The way in which persons engage in moral debate, and their moral motivations, will be dependent on their character, even in public life. Conversely, whether or not their character is given the opportunity to flourish is dependent on the institutions in which these individuals live and work. Whether we like it or not our modern business institutions are concerned with the lifestyles of private citizens specifically insofar as they are consumers. In fact, the more one's private life is obsessed with consuming and the less one concerns oneself with the political implications of this, the better for business institutions (Adorno and Horkheimer, 1972).

One cannot be concerned with political freedom without also being concerned with the kind of characters being produced within the prevailing social institutions. Both freedoms impinge directly on each other. This begs the question, "Is there room for virtue or a concern for one's character in liberalism?" This may be possible if the requirements of liberal society are not as restricting as might be supposed. It might be a myth that democracy and liberalism will fall if its citizens were to concern themselves with ethics, the kind of life they want to lead, and the institutions that this requires (Foucault, 1984c, p. 262).

The following sections will work out how virtue theory can enrich the practice of business ethics and the implications of this for business codes of ethics.

## 9.7 Being in Business

MacIntyre is not the first to bring into question the character of liberalism. His critique echoes the Frankfurt School in their condemnation of the consumer culture or the "culture industry" (Adorno and Horkheimer, 1972; Fromm, 1979).

Mass consumerism is the economic driving force of contemporary liberal society. We are free to buy, and may come to believe that buying is an expression of our freedom. This kind of imagery dominates the distribution and dissemination of products under liberal capitalism. This condition has been broadly characterized as the *having* mode of existence in opposition to the *being* mode; the measure of man is what he owns rather than what he is (Fromm, 1979).

This critical line of thought has been largely neglected within the field of business ethics. One manifestation has been a concern for the state of moral discourse within organizations (Habermas, 1990; Payne, 1991). A concern for being in organizations has been even more rarely expressed within business ethics literature, confirming MacIntyre's pessimistic observations about this area of study (Maclagan, 1990, is a rare exception in demonstrating a concern for being in business organizations).

Not surprisingly, one of the most powerful movements in business ethics has been the consumer movement, and the idea of the socially responsible shopper. (For example see Adams et al, 1991, *Shopping for a Better World*, and Elkington and Hailes, 1989, *The Green Consumer's Guide*.) The consumerist movement works happily within the assumptions of an amoral business institution; as one company has recently advertized, "We care because you do."

This message comes over to us in a reassuringly maternal timbre. Its purpose? Obviously it is intended to portray a company which takes its moral responsibilities seriously, but the ethical assumptions underlying this image are dubious indeed. Its philosophy describes an organization which is merely the amoral instrument of its customers demands. Here business ethics has itself been entirely consumed by the consumer culture.

In this light the resuscitation of virtue ethics can be seen in the same tradition as the Frankfurt School, but with an Aristotelian twist. The concern for character, or self constitution, reflects what Fromm has termed the being mode of existence. So, instead of elaborating a procedure for ethical reasoning and applying it to business, a virtue theory focuses on the very constitution of the person in business; the crucial question being “what opportunities do people have to flourish in this domain?”

### **9.8 The Resuscitation of Virtue Theory**

What kind of response can be offered to fill the ethical void within liberal society? The proliferation of codes in business appears to be the current liberal reaction to any moral qualms about business practices. This should not be surprising in a society in which ethics is understood almost entirely in terms of codes. But as MacIntyre (1985) and Foucault (1984c) have observed, this is a singularly impoverished understanding of ethics. Another possible approach involves a critique and reconstruction of virtue ethics (MacIntyre, 1985, 1988). By this route it may be possible to steer clear of the Scylla of liberalism (Enlightenment) and the Charybdis of nihilism (emotivist relativism).

What is meant by the idea of a virtue? Very basically, a virtue is a predisposition to act in a certain way, a way which is construed as being good for both the individual and the community as a whole. But different accounts of the virtues have been given in different communities, so which are the real virtues?

It can be argued that the virtues have lost their meaning in contemporary liberalism; the vocabulary remains in the language on only a superficial level. It would be wrong to understand the virtues simply as a means to an end, such as the dispositions of industriousness or ambition. These dispositions may lead to the rapid generation of wealth, without regard to the creation of any internal goods. Virtues, in the Aristotelian sense, allow a person to seek goods which are both internal and external to a particular activity (MacIntyre, 1985). This is what distinguishes a virtue from a merely useful predisposition. In virtue theory neither good is subordinated to the ends of the other.

External goods are somewhat independent of a person's character, such as wealth, status, and power. These goods are essential for the institutions which house social activities. For example, money - an external good - is essential for the maintenance of hospitals, schools, theatre, sports and other institutions.

On the other hand, internal goods are not disassociable from a person's character. They develop through excellence in some activity, in its performance and in its product. Furthermore, what is crucial to this practice is the recognition that it is a good way of life in itself. A painter may consider painting as itself a good way of life, whatever the wealth and status gained through this practice. As such, internal goods may be properly understood only by those who are themselves pursuing these goods.

Therefore, the virtues can only be cultivated in activities which have ends (goods) both internal and external to that activity. Thus, MacIntyre distinguishes between an institution and a virtuous practice. External ends are essential to the institution in which a particular practice is undertaken; virtues, however, can only be cultivated if that practice also has goods internal to its performance. Where medicine or teaching are considered to be virtuous practices the surrounding institutions would be hospitals or schools. It is through these practices that a common good becomes bound up with the individual good. If one is a teacher, then the question of whether or not one is a good person cannot be disassociated from the question of whether or not one is a good teacher (and so contributes towards both one's own good and the common good).

### **9.9 Beyond Codes: Virtuous Practices and Ethical Deliberation**

Virtue, cannot be cultivated merely by referring to some code of conduct; it can only be cultivated in relation to a practice. As such ethical knowledge does not arise by referring to a code of conduct, or by thinking through a dry intellectual procedure; it arises through the combination of both physical and intellectual activity.

In its Enlightenment mould, moral deliberation has been taken to be somewhat independent of any personal disposition or social practice. The Enlightenment philosopher has been concerned with the search for universal moral laws that can be applied to any particular situation (Rawls, 1971; Mills, 1863; Kant, 1785). On the whole, these theories of morality have embodied practical reasoning in a single rational procedure, descendants of the Categorical Imperative.

This appeal to an abstracted universal form of moral knowledge may be lacking in any genuine ethical substance (Hegel, 1931; Kaufmann, 1991; MacIntyre, 1985). This universalist understanding of morality has become so general that it may have lost its application to everyday life, since the completely universal is not clearly applicable to any particular situation (MacIntyre, 1984). Indeed, this was Hegel's original criticism of Kant's moral system (Hegel, 1931). Purely abstracted universal reason tends to deny the relationship between specific moral knowledge and particular social practices. Neither does it account for how the moral motivations of persons are cultivated within the existing social institutions.

To be sure, virtue ethics operates quite differently from the abstract theories of the Enlightenment tradition. The Aristotelian ethic is far more particularist and what is appropriate in one context may be quite irrelevant in another. A virtuous person directs their behaviour towards a mean, rather than seeing things solely in terms of the forbidden and the permitted. As MacIntyre has put it,

"To judge *kata ton orthon logon* [according to the right reason] is indeed to judge more or less and Aristotle tries to use the notion of a mean between the more or the less to give a general characterization of the virtues..." (1985, p.114)

Therefore, calculative reasoning occupies only one small aspect of moral deliberation. In the texts of Ancient Greece, deciding what should be done in a given situation necessitated three stages of deliberation. Firstly, one must hold the correct beliefs about the circumstances in which one finds oneself. Secondly, one must be correct in believing that by doing something one will

achieve the desired objective as a result of one's efforts. And finally, one must achieve what is good on the whole, and this requires a knowledge of what it means to live well (Aristotle, 1976). Only the second stage requires reasoning as such, in order to work out how to achieve one's desired objective, an objective which has arisen from an understanding of one's particular circumstances and the goodlife in general (Dryer, 1983).

The object of outlining this form of practical reasoning is not to advocate it as a superior method, but to draw a comparison with the Enlightenment tradition. Ethics may be found, or created, in a person's relations with their self and others, and therefore, within particular social practices and not simply in relation to a code of rules or a bodiless intellectual procedure. This serves to further illustrate the difficulties that are involved in mapping a virtue framework onto a modern way of life.

The universalist way of gaining moral knowledge which characterizes the Enlightenment project simply does not consider the kind of moral knowledge appropriate to virtue ethics. In the latter form of practical reasoning moral knowledge is not disassociable from one's particular social practices. Moral knowledge and good character are cultivated through particular practices rather than through a code or a formula. Only this form of rationality embodies the recognition that institutions have a direct bearing on the character and the moral deliberations of their members.

From this perspective a code of conduct of any form will be of strictly limited significance in the ethical life. It is one's relations with oneself that are primary in a virtue ethics, not one's relations with a code. Moral deliberation has a very special function in the cultivation of virtue; one's dispositions of character must be exercised according to reason, a mean. This is a very different way of life to



finding out what is forbidden or permissible, and then acting in response to this abstracted knowledge.

Now that the code orientated ethic has been contrasted with a practice orientated ethic, the implications of virtue theory for business practice can be worked out thoroughly.

### **9.10 The Cultivation of Virtue in Business**

The Ancient Greeks believed that a certain degree of freedom was an essential condition for the cultivation of virtue. This freedom is necessary for a person to consider perplexing ethical questions such as "How should I live my life?" or "What ought I to do now?" But does such freedom exist for a someone working within the modern day business institutions? Even Aristotle believed that,

"As for the life of the business man, it does not give him much freedom of action. Besides, wealth is obviously not the good we are seeking, because it serves only as a means; i.e. for getting something else." (1976, p.69)

It appears, then, that there is little freedom for the cultivation of virtue in business (Aristotle, 1976; MacIntyre, 1985). Yet there is little doubt that business ethics could be improved if it were conducted by virtuous persons. The cultivation of virtue forges a link between the citizen and society, whereby the common good is reflected in the individual's good. This relationship lies at the very heart of business ethics (Klein, 1989; Solomon, 1993).

How is business to be studied in terms of virtue theory? Some have suggested that ideas such as community, role identity and judgment are essential to developing good business practices (Klein, 1989; Solomon, 1993). Others have stated that the business person does not have the necessary freedom for the cultivation of virtue (Aristotle, 1976; MacIntyre, 1985). To be sure, it is not clear how the cultivation of the virtues can be embodied in specific business practices. Some social space must be cleared in business life for the cultivation of virtue. It is this very formidable task to which Peter Anthony (1986) has turned.

Let us consider that the moral foundations of management can be redeemed if the profession rests on,

"a concern for the integrity and the good of the community that it governs." (Anthony, 1986, p.198)

Management might be rescued from MacIntyre's critique if it can be shown that this critique is more correctly aimed at management theory rather than practice. Thus Anthony (1986) has distinguished between the 'official theory' of management and the 'real theory.'

The official theory of management is the body of work that supports management's claim to expertize, efficiency and neutrality. This includes pseudo-scientific works on social control and prediction in organizations such as work psychology, optimization planning, accounting, and economics. These works form the orthodox texts in business studies courses in universities and management education (Anthony cites the Manchester Business School, the University of Bradford Management Centre, the London Business School). In

contrast to this there exists a body of work which Anthony has identified as 'real theory'. This includes accounts of how people in organizations resist and reject attempts to control them, and how official procedures are side stepped in everyday work (Anthony uses the work of Tom Burns and Andrew Pettigrew as examples of the real theory of management).

In real theory organizations have a moral order within their informal structures. Real theory concerns itself with social and political mechanisms, whereas official theory is concerned with the efficiency of bureaucratic mechanisms. Paradoxically real theory tells us that,

"the unofficial network is more of a moral order than the official hierarchy that seeks to impose moral duty upon its subordinates." (Anthony, 1986, p.186-187)

Anthony claims that a moral foundation for management can be developed due to this paradox. Accordingly, the moral foundation of management must be found in the maintenance of the informal organization rather than in the formal organization. Under this reconstruction of business ethics codes cannot provide a moral foundation for business practice. In fact, there is the danger that the practices essential to virtue will be neglected in business because of its code orientated conception of ethics.

In order to redeem business ethics, Anthony has redefined the job of the manager in moral terms as storytelling, where the role of the storyteller is essential to the maintenance of a moral community. The tradition, in which the virtues are placed, is communicated as a narrative unity through the storyteller. This process is what gives shape to the everyday life of a community; it provides and transmits a conception of the common good. Storytelling is thus

the practice through which managers can cultivate the virtues. In this way it might be possible to clear some social space in which managers can cultivate virtue and make moral choices.

Does this succeed in redirecting MacIntyre's argument against orthodox management theory and practice? At first sight, the practice of storytelling offers an ingenious possibility for business ethics. However, this deliverance must come at some cost to managers. The following sections of this chapter will be devoted to a final critical glance at the role of management in maintaining a community. Such a moral community, sustained through the stories of managers, will be shown to be impoverished on several counts. Firstly, this type of community will be described in terms of the very narrow of conception of the goodlife on which it is grounded. Reinterpreting the task of management in terms of storytelling does not, by itself, overcome those institutional structures which allow so little room for the cultivation of internal goods. Secondly, there is a danger that the members of such a community will become docile, unable to make their own moral choices. This state of affairs will arise where persons no longer trust their own interpretations, having become utterly dependent on the knowledge and authoritative interpretations of professional bodies. A code orientated ethics will be shown to foster this docile form of moral life.

### **9.11 Business Communities: The Real Thing?**

Undoubtedly, MacIntyre (1985) has drawn on a very limited range of management literature. Nevertheless, he clearly refers to the work of real theorists for a moral critique of modern institutions (Burns, 1963; Goffman, 1959). Anthony has attempted to find a moral foundation for management in

the moral order generated in the unofficial networks of organizations, but it is the very structure of this unofficial order which is criticized in *After Virtue*.

The real theorists of organizations may be applauded for their critique of official theory and their more accurate account of organizational life (Anthony, 1986). Nevertheless, the so-called real theories still assume the necessity of the liberal social order which MacIntyre repudiates. In their description of organizations and human activities real theories, like official theories, must presume some conception of human nature. In keeping with the liberal tradition this conception has been generally an emotivist one. The liberal "individual" is an essential peg, on which the clothes of a social role may be hung. The predominant form of modern organization, that is bureaucracy, rests securely on this conception of human nature, where questions of ends are simply a matter of opinion, and reason can only pertain to questions of means and efficiency. The concept of efficiency has thus come to exclude any consideration of the internal goods which may be cultivated through some practice or activity.

Under an emotivist understanding of social life people are in essence no more than actors, lacking in ethical character. Even the most sophisticated of the social theorists, such as Goffman and Weber, were convinced that the self is purely presentational, bearing only the semblance of moral character, and that values are ultimately a matter of taste (MacIntyre, 1985). Reason, then, can only relate to human affairs in some instrumental way. This view of social life is captured perfectly in the Nietzschean maxim that behind every mask lies another mask (Nietzsche, 1990). This emotivist philosophy may be considered as characteristic of modern social theory and what Anthony terms the 'real theory' of organizations. Indeed, MacIntyre has pointed out that both Goffman and Weber appear to have been sympathetic to Nietzsche's emotivist moral

philosophy; just as Tom Burns, a real theorist, is sympathetic to the works of Goffman (Burns, 1992).

The dissemination of this form of moral knowledge may well have had a pernicious effect on the moral communities they purport to sustain. In this state of affairs, a person can either appeal to incommensurable forms of moral argumentation, or to an emotivist position. On the one hand, one may adhere to some set of moral principles, even though one may be unable to engage in rational debate with those who appeal to another set of moral principles. This state of moral incommensurability has already been discussed with specific reference to insurmountable differences between moral theories such as rights and utility. On the other hand, understanding this to be the case, the emotivist has cynically abandoned any thought that some rationality might underlie his or her moral choices. No conception of the common good can be realized within a community which relies on either of these moral frameworks.

The role of the business community must be examined in the light of this challenge. To what extent can business institutions incorporate virtue, a practice of the self, or otherwise stifle and exclude these practices?

### **9.12 The Inversion of Virtues in Business**

There is still one further element of MacIntyre's thesis which retains its power in the face of its liberal opponents. Rather late on in his argument he sums up the ethical problems of business in the following:

"Pleonexia, a vice in the Aristotelian scheme, is now the driving force of modern productive work. The means-end relationships

embodied for the most part in such work - on a production line, for example - are necessarily external to the goods which those who work seek; such work has consequently been expelled from the realm of practices with goods internal to themselves. And correspondingly practices have in turn been removed to the margins of social and cultural life." (1985, p.227)

This is recognized by Anthony (1986) to be an accurate and powerful critique of management and its prospects for moral legitimacy. Nevertheless, the criticism as stated above is never surmounted by Anthony, and this is essential for management to be considered a moral activity. Is it not the case that the above observation aims at the essence of both management theory and practice?

Pleonexia (ambition, acquisitiveness) is only the simulacrum of a virtue, one might say an inverted virtue. Its justification is entirely in terms of external goods, such as the pursuit of wealth, status and power. Ambition and acquisitiveness are not essential for excellence in any particular activity, or way of life. Indeed, these traits may hinder the pursuit of excellence in an activity, since the activity itself may be considered only as instrumental to the attainment of wealth and power (external goods). This is quite the contrary to a virtue where, though the production of external goods is essential to the activity, its possession can sometimes hinder us from achieving these goods. At worst, pleonexia can strangle the cultivation of the virtues, such as courage, truthfulness and justice, since the former appetitive disposition does not lie easy with the latter ones.

The nature of modern work is such that the social space and time which might have been occupied by the production of internal goods has been pushed out by

the demand for external (economic) goods. Hence the huge budgets allocated within companies for advertizing, in order to constantly stimulate the desire for external goods. Without the production of internal goods there is no room for the virtues and therefore no context for practical reasoning. At best a manager will struggle to treat persons with respect (as ends) in the Kantian sense, but this is doomed to failure whilst pleonexia remains an institutional virtue.

It is the very job of management to maintain this state of affairs, whereby persons are instrumentalized and virtuous practices are forced to the margins of social life. Granted, the real job of managers might be conceived as storytelling, but can they tell the proper stories? Virtues such as courage, truthfulness and justice must be expressed in these stories if they are to support a community which allows for the cultivation of internal goods. However, such stories would not maintain the instrumental relations which characterize modern production, neither would they maintain the manager's privileged position in the hierarchy. Pleonexia must keep its contemporary perverse interpretation as a virtue and it is management's job to tell the appropriate stories.

If management is to become a virtuous practice, it must abandon the dissemination of acquisitiveness and ambition as goods in themselves. It is likely that this will also require managers to forsake much of their present power, if room is to be created for the cultivation of virtue in business. Otherwise there will be little concern for the characters which are produced within the institutions of liberal society, at least, so long as people continue to consume voraciously and, preferably, passively. As MacIntyre has suggested, "what we are oppressed by is not power, but impotence" (1985, p.75). This latter point is a concern which MacIntyre shares with Foucault. This



introduces the second danger of a moral community which is sustained by professional managers.

### **9.13 Business Ethics, Codes and Normalization**

The prevailing knowledges of liberalism are the ones generated by the professions, and which are soaked with their normalizing power relations (Foucault, 1984). The professions, it can be argued, have been instrumental in the fragmentation of moral communities (Smail, 1993). That is not to say that these qualified individuals are surreptitiously scheming against those less privileged. They may well believe that they have our best interests at heart. Despite this, professional knowledge may present a danger to the ethical life communities and their constituents, as will be explained below.

Man has been considered within these professions as an object to be ordered scientifically. But, where man is the object of inquiry it is not possible to discover immutable laws of behaviour. Uncertainty is essential to humankind since man is both the interpreting subject and the interpreted object (Flyvberg, 1993). Historically, the professions have generated a surrounding knowledge which is independent of the character of the knower, and which does not take into account the inevitability of this double hermeneutic.

The dissemination of professional knowledge now encroaches on almost every area of social life. Professions, such as psychiatry, medicine and the police, perform those social processes whereby citizens become normalized, that is, they become categorized and controlled according to norms which have been generated by these professions (Foucault, 1984). Each person is viewed, indeed constructed, in terms of a case, according to a set of norms; they

become judged according to the dichotomy of normal and abnormal. Everyday behaviour becomes potentially punishable once it is broken down according to normalizing criteria, such as,

"... of time (lateness, absences, interruptions of tasks), of activity (inattention, negligence, lack of zeal), of behaviour (impoliteness, disobedience), of speech (idle chatter, insolence), of the body (incorrect attitudes, irregular gestures, lack of cleanliness), of sexuality (impurity, indecency)." (Foucault, 1977, p.178).

The extent of this discipline is reflected in the very architecture of the prevailing social institutions (Foucault, 1977). Through the allocation of space and time, control is exercised within contemporary institutions such as schools, hospitals, prisons, and factories. These are divided up by space into cells and by time according to timetables. Each individual cell occupant can become visible to the supervisor at any time, and lies in comparison with any other cell. Work can certainly be seen as a normalizing activity, most obviously in terms of the division of labour and bureaucratization (Foucault, 1977).

Furthermore, the professions have functioned by creating docility in their subjects. Thoroughly normalized persons no longer trust their own interpretations and view themselves largely in terms of the professional's knowledge. Thus, people go to the psychoanalyst who explains the meaning of their feelings, or to their boss who explains their work, its purposes and its ethic. This process of normalization does not allow room for virtue or any acts of self creation. A docile body is one which has been completely absorbed by the exercises prescribed by professionals to normalize that body.

Therefore, the prevailing forms of institutional knowledge are concerned with people as normal and docile rather than as virtuous and self creating. The proliferation of codes does nothing to challenge this, and may even be interpreted as part of the pervasive normalizing framework. Codes are themselves lists of rules which refer to people only in terms of what is forbidden and what is permitted. The code does not require virtue, only that it be obeyed. If the response to ethical problems is foremost in relation to a code, then ethics is reduced to a purely normalizing activity. Arguably, this is a fair description of the current state of business ethics.

Over the past few decades the liberation movements, such as feminism and gay rights, have led to a relaxation of certain moral codes. On the one hand, the liberation from moral codes leaves behind a moral vacuum, a state of normlessness or anomie. On the other hand, this so called liberation provides some possibilities for exploring a practice orientated ethic such as virtue theory. The gradual destruction of certain norms and moral codes has provided some freedom (social space) in which practices of the self, and an art of living, might flourish (Foucault, 1984). Otherwise, without an ethic to replace the code mentality, there is a danger that people will make little of their freedom, either wallowing in anomie or becoming increasingly docile in response to the prevailing institutions.

#### **9.14 Ethics versus Normalization**

Today we live in a code orientated society where the emphasis of morality is on the richness of the code and its ability to embrace every area of behaviour (Foucault, 1985). Today's liberal democracies are quite different from the ancient societies in which virtue ethics were developed. Foucault (1985) has

observed that although many of our basic moral codes have remained constant for nearly two millennia, they have been understood in very different ways. This is because different ways can be identified whereby a person may come to know himself or herself as an ethical subject. Thus, Foucault described the cultivation of virtue as a problem of self constitution, rather than of code constitution. The methods of self constitution which were central to the cultivation of the virtues in Ancient Greece are no longer practised anywhere today, or at least they are not practised according to the same scheme.

In virtue ethics every moral action does not simply refer to a code, but to a whole pattern of moral conduct. To be virtuous is a mode of being, not just conformity with certain rules. This requires a moral goal (*telos*) such as purity, freedom, or self-mastery, and an ascetics which supports that goal - these involve particular exercises and practices. In virtue ethics the significance of moral codes plays a very minor role. Instead, what is important is the relations of oneself to oneself (Foucault, 1985, 1986).

Central to the cultivation of virtue are the practices of the self; these are the exercises through which one transforms oneself into a person of virtue. Through the practices of the self the pleasures are controlled and distributed. The virtues are cultivated through the use of pleasures according to a mean, not through their categorical denial. To be virtuous, then, one must master one's desires or else be mastered by them. This ethic does not presume a split between the reasonable (rational) man and the desiring beast, which has been one of the marks of the Enlightenment. The evil man is not created as other to the good man. Leading the good life entails the fulfilment of human desires according to a particular scheme, that is right reason (Aristotle, 1976), rather than through the outright denial of certain desires (Kant, 1785).

In modern liberal cultures the ethical subject is understood only in relation to a code of rules and values, what is forbidden and what is permitted. Self mastery is required simply because one's desires are forbidden and must be renounced. This understanding of self mastery is much in the vein of the Christian tradition (Foucault, 1985). The idea of an evil person and evil desires requires a denial of the self, but categorical denial is quite the contrary to the use of pleasures and the self relations cultivated by a person of virtue. The virtue ethic entails a style of self mastery which avoids the dangers of normalization.

It is important to distinguish the ancient style of self mastery from certain other forms of mastery found within contemporary liberal society. This ancient interpretation of self mastery must not be confused with narcissism. A modern liberal interpretation of self mastery may be more akin to a narcissistic personality rather than a virtuous one. A narcissistic person may be described as having an overwhelming concern for their image due to their low self-esteem (Locke, 1987). This may have its origins in childhood, when a child internalizes violence directed at her from her significant others. A narcissistic person then becomes radically alienated from their desires as a result of their efforts to please others. Such a weak self image is more likely to be seduced by the consumerist ideology, where persons are defined in terms of what they own rather than what they are (Fromm, 1979). Here, self mastery is an illusion; one's desires are controlled purely for the sake of pleasing others. Under the narcissistic way of life a person is in danger of being entirely swallowed up by their desires.

This account of ethics illustrates the extreme difficulty of mapping virtue theory onto our modern liberal condition, which is obsessed with the elaboration of codes rather than the cultivation of the self. Today self-knowledge is prized, but practices of the self occupy only a minimal role in this process of self

constitution (Foucault, 1986). The following section will now attempt to flesh out these arguments with reference to the normalizing stories which are part of the everyday life within business organizations.

### **9.15 Normalized Stories**

The problems of self constitution can be further extended to the practice of storytelling. Storytelling has been proposed as the practice of management upon which the moral community is founded (Anthony, 1986). But if the truth of the story is part of a normalizing discourse, then it will be quite antithetical to a virtuous communal life.

Management forms a discourse involving the mastery of the self and the mastery of others. This facet of virtue ethics has a very particular bearing on the practice of storytelling. Perversely, a discourse may hold the promise of liberation when, in fact, one is actually entering into relations of domination. A person can become imprisoned through the very stories she tells about herself in order to free herself (Foucault, 1978). This is an acute problem where the discourse is part of an authority relation, such as between the confessor and priest, the patient and therapist, or the employee and boss (Chapter Three). If the interpretive powers of an authority are relied upon to gain access to a story's truth, then the responsibility for moral choice is removed from the speaker/confessor.

Managers may well play an important role in the formation of moral communities in organizations, but what kind of communities are these? In Foucauldian terminology, perhaps these communities are composed of docile bodies, reliant on the interpretations of professionals. This will be somewhat

dependent on the way managers portray themselves and others in their stories. If they wear the mask of a professional offering privileged interpretations (or therapy) to those making difficult decisions, then there will be little room for the cultivation of virtue. A code of ethics does nothing to challenge this situation, it merely reinforces the code mentality, where acts are either permitted or forbidden and thus people are classified as either conformist or deviant. In fact, it has already been shown how existing company codes explicitly support the prerogative of management and privilege its (a)moral interpretations (Chapter Three).

An example of a management story which is not part of a normalizing discourse can be abstracted from the texts concerning the city states of Ancient Greece. These texts advise that a leader can only exercise proper mastery of others after he has achieved mastery over himself (Foucault, 1986). One's relations with oneself are reflected in one's relations with others. A vicious man, who was incapable of mastering his passions, is prone to abuse the power he has over others. Today however, the power of management does not appear to rest on any comparable justification. If a virtue ethic is to refer to managers as leaders of others then one way of exploring this relationship might be to examine the practices of managers through which they assert their self mastery. This might involve a study of the apprenticeship through which a person must pass in order to become, as it were, a manager.

A new direction for the theory and practice of business ethics is indicated by this redescription of the task of management. Storytelling may be understood to be a practice for the cultivation of virtue, but this practice cannot be considered in isolation to other aspects of modern business life. Stories are attached to a web of social practices, such as the processes of production, marketing and consumption of material goods. In the practices of business life

there may be little room set aside for the production of internal goods, where these mysterious processes are left to the margins of society. Therefore, when considering factors such as the inversion of pleonexia as a virtue, the normalizing discourse of professional knowledge, and the modern preoccupation with codes of ethics, there appears to be little social space for the cultivation of virtue within business institutions.

### **9.16 Virtue: Some Grounds for Suspicion**

As a footnote to the above analysis of virtue ethics, it must be pointed out that there are some important differences between Foucault's approach to ethics and that of MacIntyre's. MacIntyre himself has written a book in which he strongly refutes the arguments of the former (MacIntyre, 1990). However, for the purposes of this thesis these differences have been consciously ignored insofar as both works have served to highlight the contrast between a code orientated ethic and a practice based virtue ethic.

These differences might prove to be extremely important for any further development of an ethic which is not based on the increasing elaboration of moral codes. One of the most important differences between these two philosophers is that, whereas MacIntyre has proclaimed the necessity for the narrative unity of life and its progression towards the fulfilment of some telos, Foucault has done just the opposite. According to Foucault, any apparent unity merely serves as a mask for the violence and accidents of history, and he allows us to live unreconciled in an absurd universe (Foucault, 1984b). His work places a far greater emphasis on the Nietzschean insight that moral agency was invented for the purposes of punishment (Foucault, 1977). This work is far more suspicious of morality than is MacIntyre's, and questions



the very grounds of morality itself. If it is true that nothing in life is necessary and that all is permissible, then the positive aim of critique becomes that of exposing the unnecessary impositions of moral codes (Foucault, 1984a).

From this point of view it may be possible to engage in a more sophisticated critique of MacIntyre's work, however, any further elaboration on the role of virtue in business ethics would take us far beyond the scope of this thesis. This chapter has shown the huge differences between a way of life based on codes of ethics and a way of life based on virtue ethics. Some space and time may be found within the modern day institutions for the cultivation of virtue. However, an emphasis on codes of conduct appears to represent an understanding of ethics which is quite the contrary to a practice orientated ethics such as the cultivation of virtue. This provides an ethics which may be understood as an art of living, apart from the normalizing authority of professionals and the power of their institutions (Foucault, 1984c).

## **Conclusions**

This chapter has been concerned with a critique of company codes of ethics based on a wider critique of business ethics. This began by describing the problem of business ethics in terms of a respect for persons. To solve this enlightenment framing of the problem, all that is needed is a disembodied intellectual procedure by which the right course of action might become known. This enlightenment understanding has largely underpinned the development of the question code in Part Two of this thesis, as well as the critique of company codes set out in Part One.

This chapter has provided an attempt to reflect back on the movement of this thesis as a whole. This process of reflection has surfaced the liberalist assumptions upon which much of contemporary business ethics is based, including the current proliferation of codes of ethics. An alternative description of business ethics has been given in terms of virtue ethics, in order to highlight the weaknesses of its contemporary liberal conception. One possibility under the liberal description of business ethics is that, in its current form, it cannot provide adequate answers to the problems it sets itself. Procedural rationalities, such as contractarianism and utilitarianism, are overcome by the underlying incommensurability of moral debate. If this is the case then business codes of ethics merely cover over the arbitrariness involved in making moral decisions within the institutions of modern liberal society. Thus, the proposed reforms to company codes of ethics set out earlier in this thesis may prove to be fruitless.

The proliferation of moral codes may be seen as representing a quite different form of moral life to virtue ethics. The code orientated ethic neglects the role of institutions and social practices in the cultivation of character and people's moral motivations. It is part of a normalizing framework and recognizes none of the moral dangers of the authoritarian structures of contemporary social institutions.

There appears to be some uncertainty concerning the degree of social space available in business for the cultivation of virtue. It may not be possible in modern business institutions to incorporate the consideration of internal goods. Whatever space there may be, it will either be squeezed out in pursuit of external goods or be occupied by an appeal to a code orientated ethic.

To conclude, the proliferation of business codes of ethics can be situated in a rather different context than was outlined in Chapter Two of this thesis. The

use of moral codes in business can be understood as a solution which is itself a part of the problem of contemporary business ethics.

## **CHAPTER TEN**

### **CONCLUSIONS**

The broad aim of this thesis has been to investigate the ways in which company codes of ethics have been used in the moral regulation of business, and furthermore, to discover what unexplored potential they might have in this endeavour.

The thesis has been divided into two main parts. The first part was concerned with the way company codes are currently formulated and enforced. Chapters Two through to Five outlined the various strengths and weaknesses of these codes, both in terms of their ideological underpinnings and their general effectiveness. Based on this critique, a number of recommendations have been made which might lead to the fair and effective implementation of a company code of ethics. Part Two of the thesis began by outlining a proposal for an alternative form of company code - the question code. This proposal was motivated by an effort to overcome the moral limitations of orthodox company codes of ethics. The implementation of a question code was then developed from Chapters Six through to Eight. Part Two ended with a critique of the overall movement of the thesis. This challenges the potential of any form of company code of ethics to be used justly in the moral regulation of business. Essentially, this concern arises from a critique of the liberal philosophy upon which business codes of ethics are grounded. Now the conclusions of Part One will be summarized.

Part One of this thesis began by tracing the emergence of company codes of ethics over recent years. A number of social trends can be associated with their

appearance, particularly the rise of pressure groups and the increasing Government legislation over business activities. Special interest groups have formed in order to protect people against some of the more pernicious activities of modern business. Environmental and consumer movements have become increasingly powerful over the last three decades. It is clear from the texts of most company codes that they are in large part a response to these social movements. In fact, many of the firms which have adopted their own code operate in a very delicate public relations position. This is most apparent in the mining industry, where firms often have extensive documents as a testimonial to their efforts.

Legislation protecting the rights of consumers and employees also appears to have been a major influence in the emergence of company codes of ethics. The rights of a wide variety of interest groups are discussed in the texts of company codes. Some codes go so far as to cite the relevant laws, such as the Health and Safety Act, 1975 and the equal opportunities legislation. Furthermore, it appears that company codes of ethics are more prevalent in the more litigious societies, most notably the US.

Thus it would appear that codes of ethics represent a rather positive response by business in the face of public pressure. However, it is also possible that these codes are mere window-dressing, without foundation in any genuine moral commitments. This is initially confirmed by the finding that their emergence displays some of the characteristics of a fashion: they have arisen in a sudden wave; they tend to be adopted by firms which are in the public eye; and they tend to be local to particular industries and countries. On the other hand, there has been a sustained interest in this movement over two decades now. If they are indeed a fashion accessory for companies, then their role in

the moral regulation of business must be questionable. This initial observation has been largely vindicated throughout Part One of this thesis.

In Chapter Two it was suggested that the origins of company codes of ethics may be located in the bureaucratic mentality. Codes of ethics are already similar to bureaucracy since they appear as formal lists of rules, goals and procedures. Also, these codes are sometimes supported by existing bureaucratic procedures for handling employee grievances. Codes of ethics appear to have been most commonly adopted by large firms, already huge bureaucracies. The use of a code of ethics is by far the most common formal means for implementing ethics within a business. This is not surprising considering the apparent ease with which they are accommodated within the existing power structure of a company.

In Chapter Three a deeper ideological analysis of codes has uncovered grounds for both hope and scepticism. This chapter first explored the possibility that company codes represent a sincere attempt on behalf of companies to fulfil their social responsibilities. Certainly, those companies which have adopted their own code of ethics appear to be concerned with a variety of moral issues. Codes frequently encompass moral responsibilities to a very broad range of people including employees, suppliers, customers, shareholders, and the local community. The most comprehensively covered issues in company codes are a firm's legal and economic responsibilities; this is the case in both the US and the UK.

However, this does not seem to reflect a traditional capitalist interpretation of the responsibilities of business. Indeed, shareholder interests are very rarely discussed in the texts of codes, whereas environmentalism, employee rights and community relations are commonly covered in the texts of the codes (especially

in the codes of UK firms). The extent to which these statements could be said to exceed the legal minimum is difficult to gauge. The codes studied often did not set definitive guide-lines on these issues. However, there are some clear cases where codes do set out responsibilities that exceed the minimum, such as charitable donations (which cannot legally exceed two percent) and the adherence to other voluntary codes (such as the recommendations of the Cadbury Committee).

An alternative explanation of the use of company codes can be given in terms of the social strains through which they have emerged. There is no unequivocal understanding of the social responsibilities of business. This observation alone indicates the presence of divergent social pressures within the business community. Similarly, this is reflected in the texts of company codes of ethics, which provide many different accounts of the true social responsibilities of business. Some codes may state that their company's prime concern is a customer's right to choose, whereas others may prioritize their customer's right to health.

These strains tend to be underplayed in the texts of company codes. Any uncertainties concerning the right thing to do should be solved by direct appeal to the company code, or failing that, to the clear mind of a manager. This approach to decision making, which is made explicit in many company codes, may pose a threat to the moral autonomy of business persons. This method of decision making privileges the moral interpretations of management, the superiors within the company hierarchy. In Chapter Three an analogy was used between the relationship set out in company codes and the ritual of confession. The person enmeshed in a moral concern (the confessor) is reliant upon the interpretive skills of an authority in the resolution of their problem. The confessor thus becomes passive in the moral interpretation of their situation.

The authority may even be perceived as unburdening the confessors of their moral responsibility. This is not simply a conflict of interests; both confessor and authority forfeit their moral interpretations to the hierarchy.

Company codes of ethics have been further analyzed using another interpretation of ideology. This has involved an inquiry into the conflicting interests which have given rise to the emergence of these codes. It would appear that the procedures for implementing codes are infused with the interests of a particular social group; that is the management profession. As mentioned above, the texts of codes tend to privilege the moral interpretive skills of management over others within an organization. Management are predominant in the formulation and enforcement of company codes both in the UK and the US. The various other interest groups, such as other employees, consumers and shareholders, are largely excluded from the formulation process.

A moral point of view, however, would at least aim to provide a fair representation of the various interests which may be affected by a company's operations. Since company codes appear to serve as vehicles for the interests of management and corporations, they may not fairly represent a moral point of view. The rationale to which company codes most often make appeal is an economic one. The possible conflict between economic and other ends is clearly underplayed in their texts. In this light, moral issues such as environmentalism and community involvement may appear in company codes only as the veneer of social responsibility.

But how does the adoption of a company code of ethics actually affect a company's operations? This may be examined both in terms of the fulfilment of corporate social responsibilities and the protection of corporate interests. In Chapter Four several difficulties were identified in measuring the effectiveness



of company codes. Firstly, there may be a degree of ambiguity involved in interpreting a code's prescriptions. This makes it difficult to determine whether or not a code is being transgressed or otherwise adhered to. Secondly, some codes set out an ideal vision of business practices, where they necessarily prescribe over and above expected behaviour. Whereas other codes focus on the existing aspects of company operations which may already be considered to be socially responsible. In this latter case a code may appear to be effective simply because it is more descriptive than it is prescriptive. Therefore, in order to overcome the problems associated with gauging a code's effectiveness, two general yardsticks have been used: a) the ways in which companies dispatch their social responsibilities, and b) the procedures which are used for the actual implementation of codes.

On the whole, given the difficulties involved in measurement, the adoption of a code of ethics does not appear to have had much impact on the operations of a company. There are only a few clear cases where ethical policies are implemented to some effect. The most common of these are projects for community involvement and charitable donations from company funds. The adoption of a company code is rarely interpreted by outside interests as a sufficient indication of corporate social responsibility. Those companies which have adopted their own code of ethics have generally failed to assuage the concerns of pressure groups. Moreover, the codes appear to do little to preempt the legislation in areas of social responsibility such as employee rights and environmental pollution (though there are a few exceptions). Thus, even as public relations exercises, they would appear to be fairly ineffectual.

These findings are not surprising considering the ways in which company codes have been implemented. To begin with, very few codes have any procedures to monitor their effects. Generally no mechanisms are made available for

employees or other interest groups to comment on the success of the code. Furthermore, participation in the formulation and enforcement of codes tends to be minimal and restricted to a managerial elite. It is unlikely that this approach to code implementation will engender much commitment to its policies. Indeed, the problem of self-policing has been identified throughout this thesis as a fundamental concern for the formulation and enforcement of company codes of ethics.

The texts of the codes are often set out in very vague terms, too vague to render unambiguous guide-lines. Little is done to disseminate the ethical principles set out in a code beyond its distribution. And in many cases even distribution is limited to company managers. Very few formal channels are provided within companies for reporting ethical concerns. As mentioned earlier, those that do outline channels inform the employee to proceed through the existing bureaucratic hierarchy. Likewise, few codes set out procedures for any transgression of the rules. In the survey of UK companies conducted for this thesis, no evidence was found that suggested sanctions were ever applied within companies for unethical behaviour. On the whole, this investigation found little evidence that codes are implemented with any real vigour. (This may be just as well in the light of the ideological critique of company codes which was set out in Chapter Three.)

Since company codes do not appear to have any significant effect on a company's operations, an investigation was undertaken in Chapter Five into the possible reasons for this. In this chapter it was suggested that company codes of ethics necessarily play an apologetic role with regard to corporate activities. This is borne out by an analysis of the texts of company codes (Chapter Three). Several clear examples could be given to illustrate this finding, ranging from the religious ethical policies of Quaker run firms to the secular ethical statements of

tobacco firms. This indicates that company codes can have only a very limited critical impact on moral regulation within the business community.

Within a company there may be little motivation to raise moral criticisms of its existing business practices. Irresponsible business practices may have become an institutionalized part of everyday working life. Many of the moral problems that a business person might be faced with appear to be rooted in wider social constraints, such as cut-throat competition and the culture of individualism. Company codes of ethics can do little to counteract these unyielding social pressures.

A discussion of corporate disasters has provided some illustrations of this inherent limitation of company codes. Formal rules, even purportedly ethical ones, are without force in the absence of a sympathetic organizational culture. For instance in the germination of corporate disasters it is usual for formal procedures to have been side stepped. The existence of a formal safety code appears to make little difference when other informal pressures oppose its use. Irresponsible working practices may arise from various different pressures. On the one hand, there may be pressures to cut corners in order to achieve one's goals quickly or cheaply. On the other hand, one's job may be so mundane or tedious that formal procedures are skipped out of boredom. In the former case, irresponsible business practices may emerge from the fiercely competitive business culture. In the latter case, the very design of the job might lead to the alienation of the worker, and hence, negligent working practices.

Based on these observations, certain moral dangers could be identified concerning the use codes of ethics. For one, a code may be used to delimit moral criticism within an organization. This is part of its apologetic role, and illustrates the inability of codes to confront unethical behaviour which has

become an organizational norm. Also, if a code were to be enforced its focus is entirely on the individual who infringed its rules. In this way, there is a danger that codes could be used to divert attention away from irresponsible institutions and onto individual scapegoats. This may further immunize an organization from moral criticism.

During the course of this critique a number of recommendations were made in order to ensure the just and effective implementation of a company code of ethics. At a minimum, this entails the representation of the various interest groups who may be affected by a company's operations. The interests of all the members of a company must be represented in the formulation and enforcement of a code. Managers must not be portrayed as moral experts, through which an employee's moral concerns may be resolved. Greater participation of employees in the implementation of a code may by itself generate a greater level of commitment to its enforcement. Similarly, outside interest groups are more likely to be sympathetic to the company's circumstances if they are represented in the formulation and enforcement of its code of ethics. If the code is to avoid a managerial ideology, then one further condition must be met. In formulating a code it should be made clear that it is to set out questions of ends, and not merely the means for performing goals already pre-set by management.

In order to further support the dissemination of a code it might be included in an ethics education programme. This should be available for all those employees who may be interested. So that sensitive ethical issues can be raised, a confidential reporting channel could also be established. Also some channels for feedback on the code are essential for a company's members to comment on its success. Finally, with regard to code enforcement a non-punitive approach may be considered to be a more humanist approach to

disciplining transgressors. However, there remains a danger that such an approach to discipline might be used as a more subtle method for the manipulation of a company's members.

Despite these many recommendations the orthodox code of ethics still suffers from some inherent moral limitations. It was the purpose of Chapter Six to outline these limitations, and then to propose an alternative form of code to overcome these. This proposal marked the beginning of Part Two of this thesis. In this chapter an epistemological break was made with the orthodox company code of ethics. This was based on the observation that underlying the use of company codes is a very limited view of the individual business person's interpretive powers.

The orthodox code may be considered to emphasize the social origins of morality. It is based on the presumption that ethics can be reduced with certainty to a set of norms and values. Thus, to be legitimate, a code need merely set out these social norms and values. In this way a code must reconcile the divergent interests of those who are affected by the company's operations. However, company policy cannot simply resolve areas of deep social controversy, it can only set out on which side of the controversy the company lies. Moreover, a code cannot be expected to cover the variety of moral concerns that may face a business person.

Many of the ideological problems of orthodox company codes of ethics may be said to arise from these limitations. As discussed in Part One, these codes tend to privilege the interpretive skills of the management profession, and they also tend to be apologetic and uncritical of existing business practices.

Underlying the use of orthodox company codes is the presumption that obedience is a business person's primary virtue. Business ethics is then equivalent to pure moral regulation, its task to correct deviant behaviour. Under this conception of morality individuals are considered as either conformists or deviants. It does not account for the Kantian moral insight that what makes a good act is that it springs forth from a goodwill. Nor does it consider possibility that individuals may be capable of some moral development. The ways in which individuals may deliberate on their situation and interpret it in moral terms are largely irrelevant under this conception of morality, that is, so long as they are obedient to the code. Therefore, implementation of an orthodox company code cannot fully respect the autonomy of individual persons in making their own moral decisions.

The idea of a question code was then proposed in order to overcome these moral limitations. The movement of this thesis is thus to incorporate a greater concern for the moral autonomy of business persons into the moral regulation of business.

This alternative form of code is designed to provoke moral inquiry rather than to elicit obedience. Thus it is formulated as a list of questions instead of as a list of commandments. These questions are posed in order to open up one's moral interpretations of a situation. The code represents a process of critical self-reflection for arriving at just decisions. This form of code need not be limited to an apologetic role as is the orthodox form of code. The question code does not rely on the moral certainty expressed in the orthodox company codes, since moral deliberation may itself be considered a virtue.

The development of such a question code has required an investigation into how a just decision might be arrived at within business. This was taken up as

the subject of Chapter Seven. This examination began by distinguishing a business rationale, which takes for granted narrow economic ends, from moral reasoning which brings into question the intended ends of one's decisions or actions.

The question code must be built on a coherent moral epistemology, otherwise the questions that it sets out would be arbitrary. The contemporary moral theories of John Rawls and Richard Hare were drawn upon in order provide the epistemological basis for the design of this question code. These approaches provide an ideal heuristic for moral inquiry within any domain where fairness may be a concern (such as in business). These theories state that moral thinking requires the equal consideration of the interests of those who may be affected by a decision. No one person or group is privileged over any other. For the purposes of designing a question code this form of moral inquiry was formulated in terms of four simple questions. The first three questions determine the various interests that might be involved in a particular action or decision. The final question requires that any decision must be universalizable; that is, no person's interests should be privileged above any other's. In psychological terms this involves a process of ideal role taking, whereby one attempts to consider all the various interests involved equally. For example, under a Rawlsian framework a person must imagine that they do not know to which of the affected parties they belong, or which of the affected persons they might be. Such a process can be used to highlight any illegitimate rationalizations which may be used to justify some immoral business decision.

A number of existing attempts at designing an ethical checklist for business persons were examined for the purposes of this thesis. None of these make explicit any coherent moral epistemology from which their code might have been built. However, some attempts are more successful than others in

outlining a just decision making process. At worst, these checklists can be criticized for being superficial, allowing plenty of scope for illegitimate rationalizations. At best, these checklists were lacking in any coherent moral epistemology. None of the existing checklists outlined a process which required full universalizability, and thus the equal consideration of interests.

The next chapter of the thesis was devoted to a discussion of how an ideal question code might be implemented within a company. This problem was addressed on two levels, firstly in terms of the moral thinking of business persons as isolated individuals, and secondly by considering how organizational politics might distort a business persons moral deliberations.

An individual must first perceive their situation in moral terms before they may be provoked into referring to any code of ethics. Thus a degree of moral sensitivity and some grasp of right and wrong must be presumed when implementing a question code. Also, the implementation of a question code must be reliant on the sincerity of those who may refer to it. It is quite possible that on adopting the mask of their corporate role, a person will see issues of fairness as irrelevant to their work, and thus will be unmotivated to take an ideal role.

The way a person relates to the questions set out in a code may also be analyzed in terms of their level of moral development. They must be able to put themselves in another person's shoes. Those at the lowest level of moral development (preconventional in Kohlbergian terms) are simply unable to identify with the interests of others. The question code is unlikely to hold any appeal to people who reason this way. It is only those at the higher levels of moral development (conventional and postconventional), who will be able to identify with other people's interests, and thus try to consider them on a par



with their own. Therefore, a question code may be interpreted on many different levels, but it is only likely to appeal to those people who reason at the higher levels of moral development.

The proposal of a question code presumes that moral decisions originate in the will of the individual. Although this has been presented as its major strength in Chapter Six, it also gives rise to several methodological weaknesses. Except for the reason and goodwill of the individual, the question code offers nothing to overcome any obstacles to making fair decisions within a company. Yet, in the discussion in Chapter Eight it became quite apparent that fair decision making could be impeded by the political network of an organization.

Patterns of ego defence, reification and rationalization may permeate the vocabulary and culture of an organization. Through these processes critical moral thinking can become suppressed or marginalized within an organization. This highlights the inadequacies of a purely monological approach to considering moral concerns within an organization. It is arrogance to suppose that we can know what the interests of others may be without first listening to their concerns. By itself the monological procedure embodied in a question code contains no method for ensuring that moral critique will be raised within an organizational context, or for ensuring that moral reasoning will be translated into action. Therefore, business persons may remain unmotivated to engage in moral inquiry or to act on their concerns.

Thus, it will be necessary to integrate moral reasoning and critical self reflection within an organization through the use of dialogue. Initially a question code may be introduced into corporate life through an ethics education programme. This programme could begin with a discussion of how the moral issues which arise within a company might be interpreted with regard to such a code.

However, by itself an isolated ethics education programme is unlikely to overcome the political obstacles to moral debate within a company. Therefore, forums for moral debate must be established so that moral thinking will be disseminated throughout the organization. To encourage and allow for moral debate within a company these forums must meet several strict criteria (as discussed in Chapter Eight). At these forums any employee should be able to voice their moral qualms about company policy and its practices. Strictly these concerns should be justified according to questions of justice and fairness as set out in the code. If a question code is to be taken seriously by the members of a company, then it is essential that raising moral concerns within that company is both tolerated and encouraged. These recommendations completed the discussion of the formulation and implementation of an ideal question code.

The purpose of the final chapter of Part Two was to reflect back on the movement of this thesis as a whole, both the critique of orthodox company codes and the proposal of a question code. This entailed an examination of the philosophical foundations for the movement of this thesis. This movement has been based largely on the Enlightenment ideal of a respect for persons and their autonomy in making moral decisions.

Despite their clear differences, both the orthodox code and the ideal question code are founded on a liberal moral philosophy. A critique of liberalism and its philosophical foundations would thus cast doubt on the efficacy of codes of ethics, and indeed, business ethics in general.

This critique began with the idea that moral debate under liberalism is fruitless given an underlying incommensurability of moral positions. Typically, the individual will attempt to protect their interests by appeal to rights, whereas institutions will attempt to justify their interests by appeal to social utility.

These positions may or may not lead to mutual satisfaction or conflict. In fact, there are no further rational grounds upon which a resolution might be attempted.

Codes of ethics, then, can only serve to cover up the arbitrariness involved in making moral decisions within the institutions of contemporary liberal society. Thus the proposed reforms to company codes which were set out in this thesis may prove to be fruitless.

At best, the focus on codes within business ethics is a typical reflection of contemporary liberal society. In this society ethics may be considered to be code orientated. That is, ethical behaviour is understood only in terms of what is forbidden and what is permitted. This conception of ethics does little to account for the moral motivations of its subjects, and role of institutions and social practices in the cultivation of people's character. Yet, it is difficult to see how the business community could be persuaded to behave more responsibly without examining the moral character and institutional practices of this community.

At worst, a codes of ethics may become a mask for the power relations which run throughout the company. That this is indeed the case is supported by much of what has been uncovered in the earlier chapters of this thesis (Part One). Company codes may be part of a normalizing framework, which cultivates passive individuals who may become dependent upon the interpretive skills of professionals, such as managers and therapists.

Understanding the kind of physical and intellectual practices which predominate in contemporary business is central to exploring the possibilities for business ethics. The proliferation of codes of ethics is clearly a sign of the times, and a

reflection of the modern liberal ethic. And, these code may be used to some small effect in the moral regulation of business, to set out corporate social responsibilities. But, beyond this they are unlikely to lead to any challenge to the institutional practices of the business community, and the effects of these practices on the moral motivations of their subjects.

# *APPENDICES*

## APPENDIX A

### **A.1 Survey Methodology**

This survey was carried out in the Winter of 1992/3, in order to obtain information concerning company codes of ethics and ethical policies in UK industry. The survey involved mailing a two page questionnaire to the personnel manager of the largest 200 companies in the UK as listed in the *Times 1000 Companies* (1991).

The questionnaire inquired into the formulation and enforcement of company ethical policies. A copy of the code was also requested if one had been adopted. A sample of large companies was chosen because they are more likely to have adopted their own code of ethics than smaller companies (Melrose-Woodman and Kverndal, 1976; Schlegelmilch and Houston, 1988). Many smaller companies which have their own code of ethics will have been missed in this survey (for example, The Body Shop and the Cooperative Bank). However, the purpose of the survey is not to gain a copy of every company code in the country, but merely to examine a representative sample of codes.

From the outset this survey methodology may be criticized since it presumes that the questionnaire will land on the desk of an appropriate company representative. What constitutes such a representative is problematic in itself. Presumably it would have to be someone likely to have knowledge of their company's code of ethics if it has one. Accordingly, the survey was addressed to the personnel manager of each of the 200 companies. Not surprisingly the majority of respondents were personnel managers. There are no systematic differences between the information supplied by these managers and other

respondents such as human resource managers and company administrators. Therefore, the methodological weakness cannot be explained by the code reaching an inappropriate employee.

Sixty-seven of the companies (34%) responded to the survey. However, sixteen of these only gave reasons for why they declined to supply the requested information. These reasons included confidentiality, company policies not to participate in surveys, lack of resources and inappropriate company structure. The characteristics of responding companies displayed no systematic differences from non-responding companies. Therefore, it would appear that the respondents are representative of the sample. Below is a table summarizing the kinds of material that was sent in response to the survey.

**Forms of Data:**

16 Letters excusing the lack of information

21 Completed Questionnaires

10 Annual Reports only (+3 with other)

15 Dedicated Codes of ethics

6 Ethical policies in other documents

## **A.2 The Diversity of Company Documents**

In the covering letter for this survey, information concerning company policy on ethical standards was requested. Specifically, the survey requested,

"statements of principles setting down company ethics, rules of conduct, codes of practice, or company philosophy concerning responsibility to employees, shareholders, consumers, the environment or any other aspects of society external to the company."

This definition was originally used by Melrose-Woodman and Kverndal (1976) and in a subsequent survey by Schlegelmilch and Houston (1988).

Thirty-three companies sent some relevant company documents in response to the survey. Twenty-one (64%) of these were separate policy documents dedicated to ethical responsibilities. A further nine (27%) companies claimed to have adopted their own code of ethics but did not provide it in response to the survey. Overall, out of the sixty-six respondents, twenty-nine (44%) claimed to have their own company code of ethics.

Thirteen companies sent their annual shareholders' reports. Ten companies sent these reports, despite the fact that they had no separate code of ethics. All ten of these contained policies concerning social responsibilities. If this finding can be generalized, even to those companies which did not respond to this survey, then far more companies in the UK may have some policies concerning their social responsibilities. Though this speculation cannot be confirmed from the evidence gathered from the existing surveys. It is quite possible that those who did not respond to this survey are in fact less likely to have ethical policies



concerning their business practices. Below is a list of those companies which supplied examples of their policies on ethical conduct.

### **A.3 A List of Companies which Supplied Codes:**

Asda, Tesco, Sainsbury, Cadbury, Associated British Foods, Marks and Spencer, Unilever, Next, WHSmith, John Menzies, Post Office, Reuters, Pearson, BAT Industries, Rothman's, Shell UK, ESSO, Petrofina, Mobil Oil, British Gas, British Alcan Aluminium, English China Clays, Costain Group, GEC-Marconi, GKN, Harrisons and Crosfield, Proctor and Gamble, IMI, Courtaulds, Delta, Peugeot-Talbot, Smith and Nephew, Boots.

On the whole the documents returned always contained some policies concerning the company's social responsibilities. One of the earliest surveys of UK company codes distinguished three forms of company ethical policy: separate documents dedicated to social responsibility, statements of responsibilities appearing in other policy documents, and annual reports for shareholders and employees (Melrose-Woodman and Kverndal, 1976).

The authors of this survey observed that separate policy documents "tend to display a higher level of commitment to social responsibility than those relying on one of the other two forms." (p.23) However these categories were of limited usefulness to the present study. It is true that separate policy documents on company ethics are more detailed than those found as part of

other policies. But, the business rationale is found to prevail throughout the ethics policies supplied for this survey of whatever their format.

The 1976 survey included all three of these categories in the content analysis of codes, yet only half of these were separate documents dedicated to policy on ethical issues. In the present survey two-thirds of the documents sent were separate documents dedicated to ethical issues. The present survey has also drawn on material from all three categories (as distinguished by Melrose-Woodman and Kverndal).

Naturally the data has been examined using frameworks relating to the hypotheses proposed during the course of this thesis. Some of the observations of the present survey have already been reported in previous surveys of UK company codes of ethics. However, this survey has used some novel frameworks not previously applied to UK company codes. For example, the issues mentioned in company codes have been examined separately from the stakeholders. This framework has highlighted a consistent bias in favour of the company in a content analysis of their codes. The content of codes have also been analyzed in terms of ethics or direction and constraint. This framework has been used to illustrate problems concerning the enforceability of company codes.

In describing the evidence arising from the survey, observations which appear to be generalizable have been pointed out. This is in order to discern any trends apparent in company code of ethics. However, equal interest has also been shown in evidence which appears to be inconsistent, contradictory, or unusual. Below is a copy of both the covering letter and the questionnaire which were used in the survey.

THE UNIVERSITY OF HULL  
DEPARTMENT OF  
MANAGEMENT SYSTEMS AND SCIENCES

HULL HU6 7RX · UNITED KINGDOM  
TELEPHONE 0482 466236 · FACSIMILE 0482 466236

PROFESSOR R L FLOOD, BSC, PHD, CENG, MInstMC  
HEAD OF DEPARTMENT



10th November

Dear Sirs,

I am a doctoral research student at the University of Hull. My field of research is business ethics, company codes of ethics in particular. I am interested in discovering how codes of ethics are viewed within the business community. Any information you could give me would greatly aid my research project. If your company has a code of conduct of any sort, I would greatly appreciate having a copy. This includes statements of principles setting down company ethics, rules of conduct, codes of practice, or company philosophy concerning responsibility to employees, shareholders, consumers, the environment or any other aspects of society external to the company.

I have enclosed a short questionnaire. If you could find the time to complete it I would be very grateful. Some of the questions can be answered regardless of whether your company has a code of ethics or not.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Iain Munro'.

Iain Munro

## QUESTIONNAIRE

- 1) Company name?
  
- 2) What is your position within your company?
  
- 3) If your company does not currently have a code of ethics is it considering adopting one? Are there any particular reasons for this?
  
  
  
  
  
  
  
  
  
  
- 4) Would your company consider using an ethical checklist for its employees? (These are questions designed to aid ethical decision making such as, "Is your decision legal?", or, "Could you disclose your decision or action without qualm to your boss, your client, your family?") Are there any particular reasons for this?

**The following questions only apply if your company has its own code of ethics:**

- 5) When was your code introduced?
  
  
- 6) Who was involved in developing the company code?
  
  
  
  
- 7) Where did the idea of creating your own company code come from?

8) Could you please outline the process by which your code was designed?

9) Were any existing guidelines referred to in order to help in designing the code (e.g. existing company rules and procedures, professional codes, the law, another company's code)?

10) Would you say company codes of ethics are popular in your industry?

11) How and to whom is your code communicated?

12) Is your code enforced? Can you give any examples of how your code has been enforced?

13) Has your code ever been changed or updated? When?

14) Any other comments?

#### **A.4 A CRITICAL REVIEW OF THE RESEARCH METHODOLOGY**

It is true that while this survey has yielded many research insights, a variety of other research methodologies could have been used which might have proved equally fruitful for the purposes of this thesis. For example, some form of ethnographic research methodology might have given even richer insights into how particular company codes of ethics are used in practice within business organizations. Furthermore, face to face interviews and a discourse analysis of these interviews could have given an unparalleled opportunity for the analysis of the informal moral codes of organizations which have been shown to be so important to the study of business ethics (Chapter Five).

Probably the biggest disadvantage of the questionnaire survey as a research methodology is its inflexibility (Oppenheim, 1966). That is, the responses it yields are tied into a very rigid format, as dictated by the questions originally developed for the survey. Also, the researcher cannot ask respondents to elaborate on unclear points, nor can they probe deeper into any particular point that a respondent may make which itself lies outside the format of the questionnaire. Having said that, some respondents to the present survey did give their views on issues which they considered to be important, though not directly in answer to any particular survey question. These additional notes often proved invaluable in the interpretation of much of the official company documentation that was also provided in response the questionnaire survey.

Despite these limitations, many arguments can be made in support of the survey methodology which was used for the present thesis. Although there were a number of

scattered surveys of corporate codes of ethics in the UK and the US, there was little existing research into corporate codes of ethics which exhibited any serious theoretical development, or comprehensiveness. In particular, there was a large gap in the evidence concerning the enforcement of corporate codes, a gap which the present thesis has attempted to fill (Chapter Three, Chapter Four, Chapter Five). Much the same could be said concerning the ideological implications of the content and enforcement of these codes. Given the apparent importance of such codes for the area of business ethics as a whole, a more comprehensive survey and analysis of these codes proved to be a useful, and perhaps essential, starting point for a thesis such as this. Therefore, the survey questionnaire has been designed to yield information concerning the existence of formal company codes of ethics and the ways they are enforced. This was supported by a covering letter which explained the general nature of survey, to include all kinds of policies on corporate social responsibility. Of less importance was a question aimed at determining whether or not companies had any current interest in developing alternative approaches to business ethics such as the idea of a question code.

Some other considerations concerning the choice of the research methodology arise from the limited resources that were available for the present study. In particular, the author began with little work experience and few business contacts, and there might have been great difficulty in gaining the kind of access to organizations which is necessary for ethnographic methods to be worth while. On the other hand, a questionnaire survey provided access to a wide range of companies, even if on a restricted level. Moreover, with no previous research experience it was deemed that a

questionnaire survey would be well within the capabilities of the author, indeed, ethics is a very sensitive area of social inquiry and it was by no means clear that the author possessed the necessary research skills to inquire, and thus intervene, so directly into the ethics of a company.



## **APPENDIX B**

### **THE RESULTS OF A SURVEY OF UK COMPANY CODES OF ETHICS (WINTER 1992)**

**(With Reference to Existing UK Surveys)**

This appendix describes a survey of the company codes of the 200 largest companies in the UK (*Times 1000*, 1991). The evidence gathered from this survey has been used as an empirical basis for propositions discussed throughout this thesis. The following analysis of the data will necessarily neglect some features of company codes and emphasize others. Therefore, the data will be examined using frameworks relating to the hypotheses which have been proposed in the body of this thesis.

A critical eye must be cast on the information provided by the respondents in order to attempt a rigorous interpretation of the data. In describing the evidence gathered from the survey, observations which appear to be generalizable will be pointed out. This is in order to discern any trends apparent in company code of ethics. However, equal interest will be shown in evidence which appears to be inconsistent, contradictory, or unusual.

By responding to the survey the companies have opened themselves up to criticism (if they permitted quotation). In itself this might reflect a difference in ethic between responding and non-responding companies. Either they are more open organizations or they are more sensitive to public relations. The majority of companies surveyed failed to reply and thus remained closed to examination.

Although the codes discussed in this thesis have been criticized, the respondent companies have demonstrated a moral commitment which may well be lacking in the firms which declined to contribute towards the discussion.

The analysis of the data collected will be divided into four main sections. The first section involves a discussion of the responses from companies which declined to return information regarding their policies on ethical conduct. The second and third sections analyze the questionnaires which were returned and were filled in to some degree. This includes companies with or without their own codes of ethics. The fourth section involves an examination of the formal documentation which companies returned concerning their policies on ethical conduct.

This survey uses some novel frameworks for analyzing UK company codes. The previous surveys of UK codes have used only a stakeholder format to examine their content. Many of the observations already made in these surveys are confirmed in this present study. However, this study also examines the specific issues addressed in codes and the enforceability of these policies. It is in these sections where the present survey contributes most to ongoing study of company codes of ethics.

### **B.1 The Restriction of Information: Explanations**

A significant number of the respondents to the survey gave no specific information on company policy other than to give a reason for their silence (15/67 responses). This is significant in the light of the large number of companies from which no response was forthcoming (133/200 in sample).

Below is a summary table of explanations that were given by companies which responded but refused to participate in the survey.

<b>Policy</b>	<b>No. Companies</b>
Inappropriate Organizational Structures	5
A Policy of Silence	4
Confidentiality	2
Lack of Resources	4

Why did these companies respond if only to excuse themselves? Perhaps those companies which excused themselves from supplying information exhibited a rather different ethic from those that did not respond at all. The majority of respondents were personnel managers, although some came from human resource and public affairs managers.

The reasons given for not supplying information on company ethical policy can be divided into four general categories: inappropriate company structure; not company policy; confidentiality; and limited resources. Furthermore, only one kind of reason tended to be offered, never a combination. An examination of these reasons highlights some interesting aspects of company relations with outside interests.

### **B.1.1 Inappropriate Organizational Structures**

Some companies stated that they were parent companies which could not properly represent their group (BTR Industries, Maxwell Communications,

United Biscuits). Others stated that they were undergoing structural changes, such as demerger or decentralization), and again could not speak for their constituent companies (ICI, Siemens). These appear to be quite acceptable positions for these companies to hold. On the other hand, many companies with similar structural characteristics, such as parent or holding companies, responded to the survey and supplied the requested information. These companies felt capable of representing the group despite a decentralized structure.

Therefore it appears that some respondents thought a code was necessary for the very same reason that the others thought it to be unnecessary.

### **B.1.2 A Policy of Silence**

The most conspicuous reply to the survey was that the supply of information was not company policy (SmithKline Beecham, Lonrho, Siebe, Williams Holdings plc). No further rationale is given where this reason is used. The reply of William Holdings plc may supply the key to the interpretation of such a policy. This letter states that

"it is not our policy to reply to *questionnaires of this nature*."

(My italics)

This reply highlights the sensitive nature of ethical inquiry into corporate affairs, or to put it another way, the reticence of addressing ethical issues in the business sphere (See the argument below and Chapters Three, Four, Eight and Nine on the avoidance and suppression of ethical thinking within the business community).

However, this critical observation may not be generalizable or, at least, there may be exceptions. SmithKline Beecham also stated that it is not their policy to reply to questionnaires unless it is required to do so by law. They stated that information pertaining to the ethical policies of their company might be contained in the company annual report (which they also neglected to send). This is quite unremarkable until one finds in another survey that SmithKline Beecham have their own code of ethics, titled "Business Standards" (Webley, 1992). Why was this non-participation policy not applied to this other survey? This might be an indication of an ignorance of the code within the company. Alternatively, it may only highlight the methodological weaknesses of the present survey methodology. Equally, it may indicate that a degree of arbitrariness is involved in whether or not a response will be gained from any particular surveyed company.

### **B.1.3 Confidentiality**

Confidentiality was the reason given by only two respondents of the fifteen who gave reasons for their refusal to provide information concerning ethical policy. Nestle stated that there was "no pertinent literature for 3<sup>rd</sup> party use". To take another example, Saatchi and Saatchi appealed directly to the "confidential nature of our business."

There appears to be some inconsistencies in these explanations. Surely, an advertising and public relations firm could supply details of its ethics policies without breaching client confidentiality or giving away industrial secrets. In contrast to this, G.E.C. - Marconi, a firm dealing with defence contracts and Hi-Tech research, supplied information on their codes of conduct and even

gave a phone number for any further queries. Are we to take it that the business of an advertizing agency is more sensitive than that of a Hi-Tech defence contractor?

#### **B.1.4 Lack of Resources**

A lack of resources appears to be an acceptable explanation in this time of recession. On the other hand, it is somewhat baffling considering that these responses came from the largest and best resourced companies in the UK (IBM, John Lewis Partnership, AAH Holdings, Safeway). It has already been noted that some companies which declined to give out information for this survey for whatever reason, had given out information to surveys of a similar nature in the past. For example, the codes of conduct of IBM and John Lewis Partnership have been supplied to previous surveys (Melrose-Woodman and Kverndal, 1976; Webley, 1992). Both of these companies replied to the present survey by stating that they were unable to fill in the brief questionnaire or pass on any other information due to a lack of time and resources. And yet, they generously found the time to reply at all. Both of these companies had codes which have been described in previous surveys as excellent examples of their kind (Melrose-Woodman and Kverndal, 1976; Webley, 1992).

The survey questionnaire might have landed on the desk of a company representative at an inconvenient time. This would explain the inconsistency between company responses to this and other surveys. Otherwise, as suggested above, it might be indicative of the reticence of company representatives in discussing ethical issues with third parties, or an ignorance of the code itself.

Can any general ethic be discerned from those companies which excused themselves from offering any specific information on company policy? The examples discussed above show the difficulties in generalizing the responses of company representatives from this survey. It is not clear how the responses to this survey can be interpreted. The validity of some of the excuses has been called into question by comparing them with the responses of similar companies that did provide some information. This could be indicative of some of the methodological problems involved in this survey.

The majority of respondents were personnel managers. This is true for those who returned useful information on company policy and for those who declined to give out such information. Therefore, the methodological weaknesses are unlikely to be explained by the possibility that the questionnaire reached an inappropriate employee.

Many companies did not reply at all to the survey, although there is some evidence that they have their own ethical policies (Webley, 1988, 1992; Schlegelmilch and Houston, 1988; Melrose-Woodman and Kverndal, 1976). These companies include Imperial Chemical Industries, BP, United Biscuits, Rank Xerox, Ford Motor Company, Trusthouse Forte, British Telecom, and Allied Lyons. Therefore, to assume that a company is not concerned with ethical issues because it did not reply would not be correct.

Now we will turn to the questionnaire survey which was returned by 31 of the 67 respondents.

## **B.2 The Results of the Questionnaire Survey**

The information supplied by companies concerning their ethical business policies came in a variety of forms. Eighteen companies returned a questionnaire without supplying further company documents. Some responding companies (nine) claimed to have their own code of ethics, yet they did not supply one. Thirteen companies returned a questionnaire with documents such as codes of ethics, mission statements, and annual reports. Many of the respondents to the survey (thirty-one) returned information concerning their company's ethical policies, but omitted the questionnaire.

### **B.2.1 Explanations for Code Adoption**

This survey discovered some confusion over what counted as a company code of ethics. Various reasons were given by companies for not having their own code, though few companies which had a code felt the need to justify their position. Only five respondents of the sixty-seven stated that they were not interested in company codes of ethics and gave no supporting reasons. Below is a table summarizing the explanations given by respondent companies for having adopted a code or not.

<b>Explanation</b>	<b>No. Companies</b>
Existing Ethical Culture	4
Inappropriate Organizational Structures	3
Covered in Other Rules	6
Public Relations	0
Popularity in Industry	5
No reason given	15



## **B.2.2 Existing Ethical Culture**

Some respondents claimed that their corporate culture was already sufficiently ethical, without the need for formal codes of ethics (Burmah Castrol, Kingfisher plc, Peugeot-Talbot Ltd). This response is common in other surveys of UK companies (Melrose-Woodman and Kverndal, 1976; Webley, 1988, 1992; Winfield, 1990). Kingfisher Plc and Peugeot-Talbot Ltd both replied that although they had some formal guidelines for ethical conduct within their company, ethical issues would be taken seriously within their respective companies even without these guides.

These three responses are important in the light of the discussion in Chapter Five. In this chapter company codes of ethics are portrayed as trifling when compared with the complexities of the moral and ideological problems which lie at the heart of contemporary business institutions. The implementation of a code could lead to the neglect of certain moral problems since the individual would always be blamed and the culture itself would never be questioned. Therefore an awareness of the problems of one's corporate culture may be obscured by the adoption of a company code of ethics. (Refer to Chapter Five for a more detailed argument.)

## **B.2.3 Inappropriate Organizational Structures**

A number of respondents stated that due to their company structure, a code of ethics would not be appropriate (Burmah Castrol, B.A.T. Industries, Kingfisher plc). These were parent companies or companies which had a decentralized

structure. Alternatively, Scottish and Newcastle stated that the diversity of their company was why they felt a need for an overall philosophy.

#### **B.2.4 Covered by Other Rules**

The reason most frequently given for not adopting a company code of ethics was that other existing company rules already covered such issues (B.E.T. Industries, the Electricity Association, W.H. Smith, Peugeot-Talbot, English China Clays plc, N.F.C. plc). Either the existence of professional codes or company bureaucracy was cited as covering the necessary ethical issues. For example, both B.A.T. Industries and English China Clays plc stated that their staff were already bound by various professional codes of conduct (e.g. The Institute of Chartered Secretaries and Administrators). A representative of Peugeot-Talbot stated that,

"We have a number of standards of conduct that we expect our employees to operate to, and do not think that a separate 'code of ethics' would provide employees with any greater clarification of what is expected of them."

This representative emphasized that a lack of a specific code of ethics does not prevent a company from taking ethical issues seriously.

Many companies reported that although they did not have specific codes of ethics they did have policies on ethical conduct (N.F.C. plc, W.H. Smith, Petrofina plc, B.A.T. Industries). For example, B.A.T. Industries placed their policy on equal opportunities in their annual report and accounts. In fact, many ethical statements and policies were contained in the annual report of

companies. Some companies had distinct documents relating to their social responsibilities, but again had no code of ethics as such (e.g. British Gas, Tesco). These findings challenge the necessity or usefulness of distinguishing between general business policies on ethical conduct and specific company codes of ethics.

### **B.2.5 Public Relations**

None of the respondents which claimed to have a company code of ethics justified their position in the questionnaire. Therefore, the reasons for adopting a code can only be derived from other sources. Surprisingly, separate documents on ethical standards are usually not disseminated to persons outside the company. Therefore, it would appear that codes cannot always be taken to be public relations exercises. Even so, many annual reports give an account of socially responsible practices which provide an ethical description of the company. These reports are usually distributed only to top management, directors and company shareholders.

### **B.2.6 Popularity in Industry**

Codes of ethics are more popular in some industries than in others (Melrose-Woodman and Kverndal, 1976; Mathews, 1987). If codes are fashionable in a particular industry this may be taken as a reason for the adoption of a code by the companies in that industry. However, no company representatives explicitly gave this as a reason for considering the adoption of a company code.

A quarter (5/21) of the companies which responded to the questionnaire stated that codes were popular in their industry. This included the oil industry, the brewery industry, journalism, and health care. Three respondents explicitly stated that codes were not popular in their industry. These included the tobacco industry, the building industry, and the food industry. Many left this question unanswered; one replied with only a question mark expressing some confusion over the matter. Another chose to distinguish between codes being commonplace and popular. He stated that they were commonplace in the oil industry but added " - I don't know about popular?".

Four of the companies contacted from the oil industry returned a code of ethics. Similarly a code was received from three companies which mine natural resources. Most of the ethical policies collected from this survey (48%) came from companies in the manufacturing industry. The representative for Northern Foods stated that they were unaware of codes in their industry. However, another very prominent company in that industry, Unilever, supplied a code of ethics. Moreover, two well known food retailers, Tesco and Asda, both sent policies on ethical standards. This indicates that codes may be common in an industry, without being well publicized or popular. Most of the documents received from companies in the service industries were not separate codes of ethical standards. However, their annual reports and other documents contained a significant amount of moral rhetoric.

On the whole there was little consensus in the responses over a rationale for adopting a company code. The responses were very similar to those of previous surveys in the reasons given for the adoption or not of a code (Melrose-Woodman and Kverndal, 1976; Webley, 1992). It is interesting that no company which had a code justified their position in the questionnaire. This might be indicative of the uncritical way in which codes are accepted. They are

ethical (it says so in the title), no more need be said. It may be that codes are thought to contain their own justification. This is discussed below in a content analysis of codes. Only the representatives of companies without codes considered their position and provided explicit justifications for this.

Even in the academic research the rationales supplied for the adoption of a code of ethics is often questionable. Manley (1992) lists eighteen primary benefits arising from company codes some of which were based on interviews with company managers. It is interesting that eighteen comparable disadvantages of code adoption are not listed alongside their expected benefits. It is typical of those advocating the adoption of company codes to focus on the positive side of this for companies in order to sell the idea (Manley, 1992; Webley, 1992). However, if the 'hard problems' of implementing ethical policies cannot be addressed, such as challenging certain business practices and responsibilities, then this must cast doubt on the motives behind these attempts.

### **B.3 The Code Formulation Processes**

The initiation dates of only ten company codes were gathered from this survey. Four of the codes were initially adopted before 1980 and six after 1980. This indicates that there may be a trend for the increasing adoption of company codes of ethics in the UK. The majority of the codes for which no adoption date was given had been in circulation during the 1990's, and all these codes were contemporary. Schlegelmilch and Houston (1988) have found that most of the UK codes they examined had been adopted in the mid eighties. It seems, then, that Business Ethics is fashionable within the business community at present. At least, it appears so at the top of the firm, as will be demonstrated below.

Only a few (5/29) companies replied that their code had been updated. This is not surprising since many of the codes had only been adopted recently. Only one company, the Mobil Oil Company, claimed to have updated its code at least twice, in 1985 and 1992. This code is also one of the oldest and most comprehensive ones received.

### **B.3.1 The Origin of the Idea**

Few of the respondents were specific about where the idea or drive for adopting a code of ethics came from. The origin of the codes is likely to be reflected in who is involved in the design process. The Mobil Oil company was the only company which stated that the initiation of their code was prompted by legislation (in the US). ESSO stated that the idea came from their parent company, EXXON. The rest stated that the code originated in the top layer of management within the company (IMI, Alcan, Smith and Nephew).

### **B.3.2 The Designers**

Company codes were formulated in a variety of different ways. A common feature throughout is the predominance of top management. Often the codes are directed at the behaviour of management rather than employees generally. No company described a formulation process where all its employees were represented. Top management were always involved. Several companies took advice from their legal department (four of the nine who gave details). There are also cases where the public affairs department and the personnel department were involved in code formulation (Mobil Oil, BICC, Cargill).

The position portrayed by management in the texts of company codes is aptly illustrated in the following excerpt (from "Alcan, its Purpose, Objectives and Policies"). Among the company objectives set out are,

"to be alert to the attitudes and views of all employees... to deal in good faith with all employees and employee representatives."

Although there is unrestricted access to this document, it is clearly written for the eyes of management. This is reflected by the fact that management is the dominant force in code design. By stating such a principle the code illustrates the power divide between management and other company stakeholders. Managers are the moral servants of the company, but they are also its masters. They decide how the moral responsibilities of the company are to be carried out on behalf of all its stakeholders.

### **B.3.3 The Yardsticks**

Often company codes of ethics were based on existing codes of conduct from other areas of business. Companies referred to guidelines from both within and without their organization during the design of their own code of ethics.

The Mobil Oil Company and Smith and Nephew Plc reported that their codes were built on existing company values. Similarly, several firms stated that existing company rules and procedures were referred to in code formulation, together with professional codes and legislation (Sainsbury's, IMI, Costain, Cargill, ESSO, Reuters, Mobil Oil, Smith and Nephew). For example,

Sainsbury's, stated that it was considering the adoption of a distinct code of ethics where,

"Our Company objective will form the main underlying principles for the establishment of a code of ethics."

Two companies, IMI and Cargill, referred to the code of ethics of a parent company in the formulation of their own code. These cases are interesting since they did not simply adopt the code of the parent company, but tailored it for their own organization. Cargill stated that its code was designed by the US parent, but had been adapted to the UK language and culture.

Mobil Oil made the unusual, if not exemplary claim that its code is designed to respond to future legislation. This implies that the present laws may be used as a yardstick which it reaches beyond.

In designing their code the Costain Group referred to several other codes of conduct as guides. Not only was the law and existing company policy referred to, but also, the practices amongst some of their key clients. Furthermore, they distribute their code to these clients and suppliers.

It appears that different companies refer to a variety of sources during the formulation of their codes. No one set of guidelines is necessarily appealed to. Company codes of ethics have evolved from a combination of interests and other codes both internal and external to the company.



#### **B.4 The Communication and Enforcement of Codes**

More than a third of companies claiming to have codes (10/29) also gave information concerning their dissemination. Only six companies provided both a code of ethics and information on how it was formulated and implemented. Thus, there is relatively little information concerning code formulation and implementation. The paucity of information concerning this area is also notable in the previous surveys of UK company codes (Melrose-Woodman and Kverndal, 1976; Schlegelmilch and Houston, 1988; Manley, 1992; Webley, 1992, 1988). The most comprehensive survey of UK company codes to date (Webley, 1992) devotes a mere two pages to the use of company codes in a thirty-seven page document.

This lack of information on code enforcement may reflect a lack of explicit enforcement procedures. This certainly seems to be the case with the codes that were reviewed for this survey. However, there is also some evidence to suggest that existing company bureaucracy is relied upon to provide such procedures. Some companies set out ethical issues in the same documents as standard disciplinary and grievance procedures. The existing company hierarchy provides the structure against which the issues discussed in codes are addressed.

The communication of codes is inextricably linked to their enforcement. This is due to a number of important considerations. In cases where the code is enforced, all those who are subject to its rulings must be made aware of these prescriptions. Where the code is not enforced it is in danger of lacking symbolic significance to its subjects. This might be interpreted as an expression of indifference by those who initiated the code. This raises another problem, this is, does the enforcement of a company code depend upon the level of

commitment to it or is it vice versa? (Refer to Chapter Four and Five concerning the problems of commitment to a self-policed code of ethics.) In this light, it is necessary to discuss code communication and enforcement together.

Of the ten companies that supplied information on code enforcement, three of these disseminated the code to all their employees (Cargill, ESSO, Reuters). Four companies restricted circulation of their code to directors and management (IMI Plc, BICC Group, Mobil Oil, Smith and Nephew). A single company stated that its code was disseminated to shareholders, but access to it is unrestricted (British Alcan Aluminium). One company stated that its code is disseminated to employees which are involved with dealings with other companies.

Very little information was provided concerning how these codes are enforced. Seven (out of twenty-nine) stated that their code was enforced, always by management. However, no evidence of disciplinary action was given by any company where a person had been disciplined for transgressing the code. One company took this as an indication of the code's deterrent effect (IMI Plc). Another explained this in terms of the company's already ethical culture. Four of the companies stated simply that there has been no reason to enforce their code.

Several companies left code enforcement entirely up to management discretion (IMI Plc, BICC, Mobil Oil, Smith and Nephew). Typically, an employee is referred to their superior within the company hierarchy in the event that they encounter a possible conflict of interest. This may be taken as an attempt to formalize channels for the reporting and monitoring of moral concerns within the company. Codes tend to emphasize the importance of referring to a

superior within the company hierarchy to ensure the *proper* interpretation of one's moral concerns (Smith and Nephew, Reuters, IMI, Mobil Oil, GEC-Marconi, ECC, the Costain Group). Apparently, company codes of ethics represent managers as moral authorities within the business community. The moral implications of the structure of the reporting and monitoring systems are discussed in detail in Chapter Three.

With regard to conflicts of interest the codes analyzed for this survey always state that the employee must decide in favour of the company. A typical example of these statements is,

"Company employees should act in the best interests of the Company to the exclusion of considerations of personal preference or advantage." (The Costain Group, *Business Conduct Guidelines*)

This prescription simply replaces an egoist morality with a Company-centred morality. Requiring one always to settle in favour of company interests is thus requiring one to form systematically distorted moral point of view. Exceptions to this exist such as the Scott-Bader Company and Abbey National plc which both have policies explicitly stating that company interests should not always be placed above the interests of others (Manley, 1992). These codes, however, were not among those which were sent in response to the present survey.

Other than referring to a superior within the company hierarchy only two enforcement procedures were explained in response to the survey. One company asked all employees to sign a compliance affidavit at the end of each year as a condition of employment (ESSO). Any doubts concerning conflicts of interest must be reported in writing to management for their consideration.

These statements are retained on file. The other example is rather more peculiar (Cargill Group). It provides a formal channel through which possible bribes are absorbed and thus conflicts of interest avoided. This company gathered all Christmas gifts presented to employees by other companies and raffled them. The money arising from the raffle is donated to charity.

The enforcement and communication of codes can also be fruitfully analyzed by examining their texts. Some of the prescriptions which are set out in these codes may be far more difficult to enforce than others. These difficulties can be highlighted by dividing the prescriptions set out in codes into ethics of direction or ethics of constraint (Ladd, 1957).

### **B.5 Constraining and Directive Prescriptions**

The idea of constraining and directive ethics has been related to the enforcement and effectiveness of company code in Chapter Four (The Effectiveness of Company Codes of Ethics). In that chapter, it was asserted that ethics of direction are more difficult to enforce than ethics of constraint. That is largely because ethics of direction are general prescriptions to cover all possible situations. Thus, they are subject to a very broad range of interpretation. These prescriptions set out ultimate obligations. An excellent example of this is the Old Testament prescription, "Love thy neighbour as thyself." This principle covers all situations, and yet it is difficult to translate it into any particular action. On the other hand, ethics of constraint are very specific. For example, the Old Testament prescription, "Thou shalt not steal." This can be clearly translated into particular action, or the prohibition of particular actions.

Sanctions cannot be reasonably placed on ethics of direction since they are open to such broad and uncertain interpretation. There are no necessary limits to the fulfilment of ethics of direction (Ladd, 1957). The reverse is true of ethics of constraint. These are minimal requirements of ethical behaviour where it is relatively easy to see how they can be enforced.

Those codes which were enforced tended to be more specific in their prescriptions. Much of their content is framed in terms of ethics of constraint. The codes of IMI, Reuters and the Costain Group were framed entirely in terms of an ethic of constraint. These three codes were all said to be enforced. Reuters' code contain fourteen prescriptions of this kind, IMI's five, and the Costain Group's twelve.

Several codes contained both constraining and directive prescriptions. Only a few of these codes were said to be enforced. Smith and Nephew's code contains five rules as ethics of constraint, GEC-Marconi eight, and English China Clays five. The latter company's ethical standards come in the conditions of employment. Interestingly, their separate environmental code is framed in terms of an ethic of direction. Mobil Oil's code gives over ten prescriptions in terms of an ethics of constraint. However, it supports these with a further ten examples where these prescriptions have been formulated even more specifically. Typically these relate to conflicts of interest, the misuse of information, bribery, extortion, politics, and the law.

Nearly all company codes have prescriptions that are framed in terms of an ethic of direction. In most codes these prescriptions state obligations to all stakeholder groups. Principles such as the public interest and social responsibility are examples of an ethic of direction. Mission statements tend to be framed entirely in terms of ethics of direction (GKN, Proctor and Gamble,

Harrisons and Crosfield, Sainsbury's, Mars). None of these codes are enforced. For example Smith and Nephew's code contains several directive ethical rules as well as constraining ones. Mobil Oil company has separate codes to cover different issues. Those separate codes of conduct which are devoted to single issues tend to be formulated as a directive ethics (Mobil, British Gas, Unilever, BAT Industries, ECC, Delta Group). These codes describe what actions the company is taking to address issues such as environmentalism and community relations. Action is being taken in these cases despite the responsibility being framed in terms of an ethics of direction. This is comparable with the way ethical policies are outlined in company annual reports. Annual reports often give details on their charitable donations and activities.

Code prescriptions are more likely to be framed in terms of an ethic of constraint when these concern the company interest or are legal issues. Since codes containing these kinds of prescriptions are more likely to be enforced this indicates a bias towards company interests. Obligations to other stakeholders tend to be framed in terms of ethics of direction. However, some companies which frame their obligations in terms of ethics of direction also show that these obligations are being addressed in practice too.

## **B.6 The Contents of Codes and Ethical Policy Statements**

The codes which were sent in response to this survey were diverse in their format and the concerns that they covered. The twenty-one companies which returned separate policy statements on ethical standards described these variously in terms of guides, codes, values, principles, purposes, philosophies, charters, and policies on distinct issues such as the environment or conflicts of interest.

Few of the codes discussed any issues in detail and, as a result, their priorities remain uncertain concerning ethical issues. In fact, most of the codes are too short to cover specific issues in any detail. Those codes which had words in their title such as values, purpose, mission, objectives, aims, and philosophy tended to be quite vague and brief (GKN, Mars, Harrisons and Crosfield, Alcan, Smith and Nephew, Marks and Spencers). They were frequently less than one side of A4 and were presented in a sharp, glossy format.

In response to the survey many companies returned their annual reports whether or nor they had also adopted a distinctive code of ethics. Usually these reports are colourful documents intended for shareholders. Only a minimum of space is devoted to ethical issues in these documents. The issues are discussed under titles such as, "Employees", "Service to the Customer", and "The Environment". Ethical policies presented in these reports are usually less than one or two pages in length. They provide only a vague account of the company's ethical responsibilities. However, Sainsbury, Tesco, and W.H.Smith provided relatively elaborate policies on ethical business practices in their annual reports.

An annual report often describes positive action taken by the company as regards its social responsibilities, such as community involvement, secondment and charitable donations. These policies may come under the idea of socially responsible business practice, though they do not clearly constitute a coherent code of conduct. They evidently display as high a level of commitment as the most intricately detailed statement of values and prohibitions.

The codes which used words such as policy, conduct, terms, and principles in their title tended to cover ethical issues in greater detail. (Shell UK, IMI plc, Reuters, Mobil Oil, English China Clays, Costain Group, Tesco).

Ten companies provided ethical policies between three and ten pages in length (Costain, Reuters, Mobil, Shell, Sainsbury's, WHSmith, Marks and Spencers, Smith and Nephew, Alcan, ECC). These covered several issues such as the environment, health and safety, community relations, bribery and the misuse of information. The few codes which are primarily concerned issues of bribery, politics, and the misuse of information fall in this category (Costain, Reuters, Mobil, ECC, IMI).

Seven of the thirty-three companies had ethical policies over ten pages long. The Mobil Oil Company sent over sixty pages of documentation on ethical policies. These policies are long enough discuss the company's social responsibilities in detail. Five of these codes cover only a few areas but in great detail, specifically the environment, health and safety, and community relations. Companies with these lengthy ethical policy statements often have other shorter codes which cover many ethical issues more generally. Furthermore, two companies (Asda, Tesco) provided documents which cover many ethical issues generally, but focus on only a few issues, that is, the environment, health and safety, and community relations.

Statements of policy devoted to a single ethical issue tended to be the most detailed and several pages long, but these are uncommon ("British Gas and the Environment", "Unilever and the Environment", IMI's "Policy to Combat Bribery and Extortion", Mobil Oil's "Statement of Policy on Conflict of Interest").



On the whole, those issues that occur most frequently in the codes are also most likely to be covered in detail in the codes.

### **B.7 A Stakeholder Analysis**

Collectively, these codes addressed issues relating to various stakeholders such as customers, suppliers, shareholders, the community, and society generally. This is also the categorization which has been used in previous surveys of UK company codes (Melrose-Woodman and Kverndal, 1976; Schlegelmilch and Houston, 1988). This classification links moral obligation with business practice by defining persons in terms of certain social roles, such as consumers and employees. However, this classification can be criticized as portraying persons in an instrumental light from the start. Any bias in favour of the company may be neglected using this framework for analysis. A classification of content in terms of the issues they address may partially overcome this problem.

#### **Stakeholder Coverage in Codes:**

4/33 cover all six areas

4/33 cover five

7/33 cover four

7/33 cover three

10/33 cover one or two

Most company codes only covered responsibilities to a narrow range of stakeholders. Documents which were devoted to an account of the company's social responsibilities tended to cover more areas in detail than the policies set out in annual reports. Whereas four codes covered all six areas of responsibility mentioned above, none of the annual reports were as comprehensive.

Some stakeholders are referred to more often than others in the codes. Below is a classification of the number of codes which discussed various social responsibilities.

<b>Area of Responsibility</b>	<b>Number of Codes (N=33)</b>
Employees	25
Consumers	22
Environment	23
Local Community and Society	19
Shareholders	16
Suppliers and Other Companies	9

The tables above largely agrees with the findings of the 1976 survey (Melrose-Woodman and Kverndal, 1976), despite the fact that the codes analyzed for the present survey tend to have been adopted after 1980.

The codes collected for this survey are most concerned with the rights and responsibilities of company employees. Indeed, European company codes have been characterized as a social compact between the company and its workers (The Conference Board, 1992). Obligations towards employees usually

concern payment for work, and health and safety. These are likely to have been covered in existing company policy. Certainly legislation has pre-empted the discussion of these issues, though few codes cited any specific laws. The codes use moral vocabulary in discussing these issues, the key words being: "integrity", "fairness", "training and development", "perks", "care", "quality of life".

The table also shows that the codes are concerned with those stakeholders which are not traditionally held to be the responsibility of business. That includes the environment, the local community, and the consumers. The codes reflect an ethos which is far from the philosophy of "Caveat Emptor", let the buyer beware. The concern for the environment and consumers reflected in codes is closely related. This is made explicit in the company annual report of Tesco. In this report, is stated,

"There are many issues still to resolve and we will continue to develop products which satisfy the new customer values with integrity and responsibility"

This phrase indicates that the adoption of ethical concerns by business is consumer lead. Ethical investment portfolios and publications have recently enhanced the power of ethical consumerism (Adams et al., 1991).

The shareholders are one of the least frequently mentioned stakeholders. Very little space is devoted to the obligations to these stakeholders, usually only a sentence or two. This is a contrast with their traditional role as the most important stakeholder in the formulation of company objectives.

## B.8 An Issue Analysis

Classification of the content of company codes in terms of the issues they cover highlights what companies take to be their social responsibilities. The ethical issues mentioned in the codes are set out in the table below.

<b>Issues:</b>	<b>Covered in % Codes (N=33):</b>
Environment/Ecology	80%
Profit and ethics	57
Health and safety	50
Charitable activities	47
Legislation + other codes	40
Equal opportunities	37
Political activities	33
Payment of employees	33
Honesty and integrity	33
Misuse of information	20
Bribery and extortion	20
Company conflicts of interest	17
Competition	13
Cadbury Committee	10
Management style	7

The above table illustrates the rather broad range of interests which are addressed in the ethical policies of UK companies. The issues which are found at the top of the table appear in a variety of formats, including codes of ethics, annual reports and other separate policy documents. The issues which are found at the bottom of the table tend only to be discussed in dedicated codes of ethics. Also, only distinct codes of ethics and separate policy statements tended to discuss issues in any detail. The only issue which was mentioned in the annual reports but not in the distinct company codes of ethics was charitable activity. It may also be observed that the variety of issues are resolved in different ways in the texts of the different company codes.

### **B.8.1 Ecological Issues**

Ecological problems were by far the most frequently discussed of issues in the codes. Some codes were entirely devoted to ecological issues (Unilever, British Gas, Mobil, English China Clays, ICI). On the whole, these codes belonged to companies with operations in the primary sector. Companies in this sector are immediately confronted with environmental problems, and thus follow pressures from the public and from regulatory agencies. All the annual reports discussed the company's environmental responsibilities, at least to some extent.

It is difficult to gauge the commitment to ecological issues which may be demonstrated within these company policies. For example, "Gas and the Environment", by British Gas describes how natural gas is the "cleanest" fossil fuel to burn in power stations. The production of gas is claimed to be socially responsible in itself. Naturally the oil companies do not make this comparison. Companies frequently detail their expenditure on ecological problems.

However, it is not clear how much of this expenditure is to meet the minimum legal requirements (Courtaulds, Alcan, English China Clays). One car manufacturer (Peugeot-Talbot) proudly declares that its cars are fitted with catalytic converters. It does not mention that this is an EC legal requirement. Nor does it offer any further discussion of the environmental responsibilities that may be associated with using their product.

The marketing of "green products" is another environmental policy undertaken by several companies (Boots, John Menzies, Tesco, Sainsbury's). This appears to be associated with a strong trend underlying these codes. That is, if a rationale is given at all for an ethical policy, it is almost always an economic rationale. This trend becomes obvious after examining how the responsibility to make profit is discussed in codes.

### **B.8.2 Profit and Ethics**

The relationship between ethics and profit making is fundamental to business ethics. A variety of accounts are given in codes of the way in which profits and ethics mix. The most common view reflected in the codes is that by making profits the common good will follow (Mars, Harrisons and Crosfield, GKN, Smith and Nephew, Proctor and Gamble, Rothman's). Less boldly, others assert that business benefits can be reaped by fulfilling certain social responsibilities (Mobil Oil Company, WHSmith, Tesco, British Gas, Unilever). Another approach is to state that profits are necessary if any other social responsibilities are to be fulfilled (Shell, English China Clays). Some companies state simply that they have an obligation to the community without mentioning the potential conflict with making profits (Marks and Spencers, Cadbury Schweppes).

The former two rationales do not allow room for the possibility that the pursuit of profit may sometimes conflict other social responsibilities. As such they may be considered to be extremely naive statements of ethics. The latter two rationales do not explicitly place the pursuit of profits above ethical constraints. However, in general all the codes tended to leave their priorities unclear. Whatever the opening remarks in these ethical policies, the economic rationale is pervasive.

One cynical respondent to the present survey stated that,

"There is an aspiration towards 'shared values' reflecting a feeling that we are or should be a more homogenous group of businesses..... and that the coherence of the group as a whole is best promoted if we develop more of a common 'culture'. Thus values are I think seen in an instrumental sense (i.e. a means towards securing business success as conventionally understood) rather than in terms of an overtly 'ethical' content."

(Appendix A)

This respondent demonstrated a particularly cynical view of their company. In this reply, the words "shared values", "synergy", "culture", "values", and "ethical" were all placed within quotation marks. This appears to indicate that this person has recognized the use of such words as fashionable - only a mask. Values and culture are manipulated for business success rather than for the common good, fairness or justice. Furthermore, this respondent wished to remain anonymous, which suggests that critical ethical views are unacceptable within that person's organization. Despite this, the formal policies of this company explicitly address ethical concerns. The annual shareholder report

supplied by this company contained ethical policies relating to environmental issues, employees and the local community.

Even the codes dedicated to ethical standards can be subjected to this criticism. *The Harrisons and Crosfields Philosophy* formulates its objectives in terms of operational efficiency and growth in earnings. *The Ethical Standards* of Smith and Nephew state that,

"The Group's objective is to use its resources with maximum efficiency in the production and marketing of goods and services which customers require. In doing so, it is Smith and Nephew's aim to provide goods and services of good quality and to have proper regard to its responsibilities to employees, customers, suppliers, shareholders, the community, and the environment."

One company (Mars) defines its social responsibility in terms of quality goods for customers, loyalty to suppliers, well paid employees, and prosperity in communities as a side effect of the company's own growth. This is nothing more than prudential business sense and requires no explicit ethical policies. The assumption is that all ends will be achieved in pursuit of the one end, that is money. There is no hint that these ends can come into conflict sometimes. The economic end is taken to be all prevailing instead of one to be considered among many.

### **B.8.3 Health and Safety**

The issue of Health and Safety concerns both company employees and the consumers of its products. Of the seventeen codes which covered health and



safety twelve do so in relation to the product and eight in relation to the working conditions. Only one of the companies which discusses working conditions is not in the manufacturing industry. Three codes cover aspects of health and safety in relation to both the companies' employees and customers (Mobil, Shell, Cadbury).

These concerns were often bound up with a discussion of environmental issues. This ties in with concerns for the health and safety of consumers. Only a single company made explicit reference to the Health and Safety Act (1974). A most unusual observation is that B.A.T. Industries owns both a health assurance company (Allied Dunbar) and several tobacco companies. Their annual report did not recognise anything incongruous in this. However, it also states that the company was sponsoring research into "various aspects of the current medical controversy on smoking."

#### **B.8.4 Other Codes and Legislation**

Most companies cite laws in order to emphasize the requirement to obey both the spirit and the letter of the law. This is frequently done with reference to issues of the environment and health and safety. Mobil Oil's code discusses co-operation with Her Majesty's Inspectorate of Pollution and the National Rivers Association.

Among the laws cited in the codes are the Health and Safety Act (1974), the Employment Protection Act (1978), the Patent Act (1977), and the Companies Act (1985). Several codes of conduct for international business are also referred to, the OECD Declaration and Guidelines for International Investment and Multinational Enterprises, The ILO Tripartite Declaration of Principles, the

EC Code of Conduct for Business in South Africa. One company (Sainsbury's) mentions the CBI's Code of Practice on Prompt Payment. This is discussed as part of the obligations to suppliers.

There are two instances where the company representative challenges the appropriateness of particular laws. The Sunday Trading law is questioned in Tesco's annual report. The benefit to consumers is given as a justification of this challenge. Rothman's International questions the appropriateness of the European Community's ban on tobacco advertizing in its annual report. This challenge is justified by stating that policies "run counter to the free and open competition that should be the Community's aim." Furthermore, the company states that many third-world countries rely on tobacco exports to support trading power and local employment. Despite this company's expressed outrage, it is interesting to note that since the EC ban on advertizing tobacco, tobacco sales have risen. One suggested explanation for this is that the health warnings on tobacco have disappeared along with the advertizements.

### **B.8.5 Political and Other Issues**

Political issues, equal opportunities and the payment of employees, are equally common in dedicated codes of ethics and annual reports. On the whole, the respondent companies do not make contributions to political parties, though there are exceptions (Rothman's International).

Codes discuss the payment of employees in terms of performance or fairness. These tend to be very vague statements implying no particular policy. However, some codes mention that other perks are available to employees, such as subsidized restaurants, medical insurance, and share ownership. Equal

opportunity, though a legal requirement, is discussed in a third of the codes. These policies discuss the issues of racism and sexism in our society. A few companies have policies which discuss the special needs of disabled workers. Two codes make reference to the EC Code of Conduct for Business in South Africa.

Three of the companies which had no separate code of ethics (John Menzies, Courtaulds, Boots) referred to the Cadbury Committee in their annual report. This shows some concern over the moral responsibilities of the company and its directors. The Cadbury Committee has recommended that company directors follow the code of conduct designed by this committee. This is largely in response to the recent scandals relating to corruption in the highest positions in British industry.

Now the format and content of the orthodox company codes have been summarized, the responses to the proposal of a question code will be discussed.

## **B.9 Question Codes and Ethics Checklists**

Most of those who returned questionnaires made some comment on the proposal of a question code. Nearly all of these comments simply stated that such a code has not been considered by the company nor is it likely to be considered. A few gave reasons for their position. Several companies referred to the fact that they had already adopted the orthodox form of code (the Post Office, ESSO, Mobil Oil Ltd, IMI plc). IMI plc stated that the question format, "Would not be as direct in guiding our managers - prefer style as attached [the orthodox format]."

English China Clays sees no difficulties regarding the implementation of a question code, the company had already adopted an orthodox form of code.

Two respondents commented on the suggested content of an ethical checklist for business persons. Some existing attempts at designing an ethical checklist include the following question "Is your decision or action legal?". The respondents from AMEC plc and Peugeot-Talbot remarked that legality is already an ethical expectation in their company. This is hardly surprising. Therefore, it would seem that questions of this minimal form would not be useful in guiding moral decision making. The code of ethical reasoning designed in the present thesis attempts to overcome such problems (Chapter Six).

Not a single company among those who replied had adopted this form of code already, and only two stated explicitly that they would consider such an approach to their business ethics (Simon Engineering plc, Mercedes-Benz (UK) Ltd). Mercedes-Benz states that, "Yes, we would consider this. We believe we already operate to high ethical standards but could consider new ideas for improvement." Mercedes has not yet adopted an orthodox form of code of ethics.

In the course of this research project only two companies have been found which have adopted this approach, Texas Instruments and IBM, both in the US. In both cases it has been supplementary to the orthodox form of company code.

## **B.10 A Comparison With Previous Surveys In the UK and the US**

Existing surveys of company codes of ethics in the UK can be held in comparison with the current study (Melrose-Woodman and Kverndal, 1976; Schlegelmilch and Houston, 1988; Manley, 1992; Webley, 1988, 1992). Webley (1992) is a particularly fine analysis of the content of UK company codes and their implementation in UK industry.

The response rate of the present survey is very similar to that of other recent surveys. The table below provides a comparison between the responses to the various surveys:

## Surveys of UK Company Codes: A Statistical Comparison

	<u>1992</u> <sup>1</sup>	<u>1992</u> <sup>2</sup>	<u>1988</u> <sup>3</sup>	<u>1988</u> <sup>4</sup>	<u>1976</u> <sup>5</sup>
Sample	200	400	300	200	700
Response	67	164	102	***	***
Usable	66	159	100	***	130
With Codes	33	113	55	***	40
%Respondents	50	71	55	***	31
%Sample	17	28	18	***	6

1) the present survey;

2) Webley, 1992;

3) Webley, 1988;

4) Schlegelmilch and Houston, 1988;

5) Melrose-Woodman and Kverndal, 1976

\*\*\* Data not provided in survey methodology

Three of four previous surveys of UK company codes had larger sample sizes than the present study. The Webley surveys of 1988 and 1992 sampled 300 and 400 companies respectively. Melrose-Woodman and Kverndal (1976) sampled 700 companies. Schlegelmilch and Houston (1988) sampled 200 companies. Thus, they are likely to be more representative of British industry than the present survey.

There are many observations common to the previous surveys and the present one. The reasons given for adopting a company code or not for this survey were comparable to those given in other surveys. The industries which codes are common in are the same: mining, retail, engineering and chemical.

All surveys of UK company codes have been supplied with little evidence concerning the enforcement of these codes. Those representatives of companies which enforce their codes are not aware of ever having used disciplinary procedures.

The stakeholder analysis of codes yield similar results in all the surveys. Where the findings differed, this survey used different methods of analysis. For example, this survey analyzed the issues mentioned in codes apart from an analysis of the stakeholders mentioned in codes. This approach has not been used clearly in previous content analyses of UK company codes. However, a survey of US codes has used this method of analysis, which can be used to highlight the ideological interests which underlie the codes' prescriptions (Mathews, 1987). The present survey found that the prescriptions of company codes of ethics always favoured company interests over others.

Webley (1988,1992) was unclear on what he counted as a company code of ethics. Whereas Melrose-Woodman and Kverndal (1976) discussed the point over several pages. In the present survey, the distinction of three types of code made by Melrose-Woodman and Kverndal is challenged as untenable (this is discussed below in Appendix B). However, it is useful to distinguish between those ethical policies presented in annual shareholder reports and separate policy statements.

Some points are given greater emphasis in the present survey than they were given in previous surveys, for example, the predominance of management in the design and enforcement of codes. This is a point which has been made in some surveys of corporate codes in the US (Mathews, 1987; Cressey and Moore, 1983), but has gone largely unnoticed in the existing UK surveys.

Also, this survey analyzed the content of codes in terms of ethics of constraint and direction. Some codes contain prescriptions which can be more obviously translated into specific actions. This distinction was to discover how enforceable the codes were.

### **Summary**

The responses from this survey suggest that company codes of ethics are a growing movement in UK industry. However, where a company has not adopted its own code of ethics it does not imply that this company is unethical or uninterested in ethical issues.

In the content analysis of codes, it was found that different companies addressed ethical issues in different ways. Few companies have codes which go into detail in addressing ethical issues. Often, issues which are addressed in detail have a particular bearing on the operations on the company. For example, all the codes sent by companies in the mining industry focus on environmental problems at length. Similarly, health and safety at work is a common focus of company codes within manufacturing industry. Some codes devote a single sentence to an issue to which other codes may devote several pages. Issues are sometimes resolved in completely opposing ways (where this legal). For example, most companies show their political neutrality by



refraining from political contributions. However, one company, a tobacco manufacturer chose not to remain impartial in this way.

Previous surveys of UK company codes have noted the inadequacies of code formulation and implementation, and this survey confirms these observations. However, the previous surveys have tended to ignore any ideological prejudices to be found in company codes. This analysis has shown that both a corporate and a managerial bias are expressed in the content of company codes and in the way they are implemented.

The findings of this survey and their implications are discussed in detail in the earlier chapters of this thesis.

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