

The Foundation Forum

Monday 29th November 2010

'There is no such thing as an ethical business'

In line with our view that difficult issues are best understood by looking at them from a range of perspectives, our Forums have three speakers who each have an interesting point of view around the subject under discussion. In this case we had an academic, a management writer and someone in business. The three impressive and generous individuals who came to address this question about ethics were:

- Chris Megone, Professor of Interdisciplinary Applied Ethics at the University of Leeds,
- Simon Caulkin, one of the country's leading management writers, and
- Douglas Board, founder of Maslow's Attic, Chair of the Refugee Council and a senior executive head-hunter in a previous life (as he pointed out, NOT the most ethically renowned of pursuits)
- Special thanks must go to Douglas who generously stepped into the breach at the last minute after Maria da Cunha, the General Counsel for BA, unfortunately had to withdraw due to work commitments (the approval BA merger with Iberia – understandable prioritisation, and also a thank you to her for agreeing to speak originally!)

Our speakers' full profiles are at the end of this note.

The academic's view

The perceived importance of ethics to different areas in society varies dramatically. Three years ago, students were asked whether ethics are important in the medical world. All hands were raised. When asked if they were important in the business world... not a hand to be seen.

So why should the situation provide a licence to divorce ethics from what some people do at work, but not others? One clue may lie in the oft quoted purpose of business being 'to maximise shareholder value'. Perhaps ethics get set aside in the clear, simple and incentivised pursuit of financial return.

In Plato's Republic one of the key ethical questions posed was 'what sort of life should one live?' Plato believed everybody has a response to this question because everyone is living a life. Socrates however, did not see this as a full answer. He believed that being rational beings, we needed to give a reflective answer. And so in relation to this question, we need to consider the difference in context between areas such as medicine, business, media and so on.

In medicine the application of ethics to decision-making is embedded in questions around life and death, consent, trust, and best interest. The purpose of medicine – life and alleviating suffering within what's affordable – is clear even if the trade-offs that result can be difficult.

In business, by contrast, the landscape is trickier. Unlike medicine it's a competitive activity. And in addition a business has to make money for its shareholders, deal with different organisational structures often spanning diverse cultures and legal systems, grow sales through marketing, make the most of people's potential, and more. Our moral compass can be clouded as we try to decide what the best thing to do is, especially under pressure.

The journalist's view

It is not the case that there is no such thing as an ethical business. The John Lewis Partnership, The Co-operative and Whole Foods are all examples of successful businesses who have good values at the heart of their organisation – they don't just see themselves as vehicles for making money.

'Red-blooded capitalism' and doing the right thing can co-exist. Often successful companies owe their performance to the passion in the business, and this comes from people's belief in a higher purpose

But there are threats to this ideal. The 1980's saw a crude ideological hijack – free market fundamentalism emerged with an absolute focus on the primacy of shareholder value. If it's legal and it adds value, then it must be pursued.

The light of the Quakers had been taken over by the dark of the Robber Barons... For a time the prevailing orthodoxy turned business into a moral-free zone. After some initial resistance, top managers succumbed and to large degree embraced a code of 'no ethics please, we're in business'. In 2007 an article in the Journal of Business Ethics conducted a survey where an overwhelming majority of senior managers stated they would set aside ethical concerns, such as cutting down a forest or releasing legal but toxic chemicals, for the sake of increasing shareholder value.

Ironically this has led to the destruction of shareholder value on an epic scale. The banking crisis was due in no small part to greed-motivated decisions being made by the humans who ran the institutions. HBR recently concluded that shareholders had done worse since businesses had focused on maximising their value than they had in the decades before when it was more common for managers to feel a wider moral obligation to society and employees.

As Peter Drucker concluded in 1954 'free enterprise cannot be justified as being good for business, but only as good for society'.

The businessman's view

There are ethical differences between businesses. Importantly an ethical offer, if delivered competently, can be profitable.

Direct experience from Douglas's old head-hunters was of a business that formally set out to be 'the most thoughtful, ethical and fun recruitment company in the world'. An admirable ambition! In the world of head-hunting, one of the key ethical issues – put bluntly – is lying. The company acknowledged this and set a goal around counsel and honesty – 'to brief candidates and clients candidly'. This was easy to

say, but took continual discussion with all involved to turn intention into reality, and it still wasn't perfect. In business, perhaps 'good' is as good as it gets.

But even good is rare.

This realism can be lost in the rising volume of business literature that over-simplifies and adds a gloss to business stories. Rosabeth Moss Kanter, the Harvard Business School professor and author of 'Super Corp' provides one example. According to her, 'out of the ashes of conventional business models arise a set of companies using their power not only for profits and sustainable growth but also social good.'

But the evidence is scant, and the examples tend to be exceptions not rules. Even businesses that position themselves as ethical are not always as ethical as they'd like to think. What's missing is the rigorous debate that's needed to really understand the trade-offs being made every day by people right across an organisation. When views are merely handed down unchallenged, without time to explore other perspectives or to test against the business's weaknesses, the results will be superficial. In academia, challenge and debate is a basic tenet.

Fundamental questions, motivations and definitions are being glossed over with grandiose hyperbole and sound bites.

The Foundation's view

Being a more rather than less ethical business is clearly possible. But achieving it to a degree that might truly earn respect is a complicated undertaking!

One way of looking at the challenge is to hold the belief, supported by the conversations we had throughout the evening, that most people want to do the right thing.

What we each need is protection so we can work out what the right choice is and have the confidence to put it into action.

There are three ways we could see protection being provided as a result of the evening's debate;

1. Providing balance. It is much easier to maximise something than to find a trade-off that advances a business and incorporates restraint that allows for other types of benefit to be realised. Achieving this balance, as Douglas described, comes from discussion and appreciation of the subtlety needed to make choices that aren't black and white. If issues are explored frequently and alternatives debated, then the values in a business have a much better chance of being widely understood and applied.
2. Going against the herd. We're social beings and when a majority view prevails it can be very difficult for any individual to resist. The financial crisis showed how this can work – 'while the music is playing we have to keep dancing'. Regulators, governments, journalists, senior businesspeople were all powerless to take a different course while the bubble continued to rise.

Somehow, for an entity to make different choices, there needs to be a groundswell of support at least in the areas where the business and its people feel they are located. This is where values that are widely held and seen as a cause of success rather than a challenge to it can help people act together.

3. Managing tension of push vs. pull. The moment a business lets its targets get ahead of its capability to meet them by 'being attractive' it's in trouble. Over the long term, altruism and generosity can make a business more attractive; to customers, to employees and to all the other stakeholders that can contribute to its success. If it's well managed and can sustain growth at a decent rate by 'pulling' customers towards it, the virtuous circle is maintained. But if it falters, or if targets are raised too far, then the only way of hitting them is to push. In other words, doing what it takes to get the results. Unlikely to be a way of working that encourages ethical exploration and trade-offs!

So, quite a head-stretching discussion.

We hope this is a useful summary and perhaps the cause of more thoughtful debate in future given that this is one way we might all do better in this area!

The Speakers' Profiles

Chris Megone is Professor of Interdisciplinary Applied Ethics at the University of Leeds. He has been Director of the Applied Ethics Centre since its inception in 2005. His prime responsibilities are leading the development of its learning & teaching, research and knowledge transfer activities. His specialist areas are medical ethics, business and professional ethics, moral psychology and Aristotelian ethics (which are increasingly difficult to understand as the sentence unfolds!). In explaining the work of the Centre, the reason given for studying business ethics is that moral norms and standards apply to the activity of business just as they apply to all other activities, but the complex structures of some organisations can make it difficult to disentangle our individual and collective responsibilities. In terms of whether the answers are obvious or not, the Centre's experience suggests that in fact it is not always clear what the right thing to do is in any given situation. Real life is messy and people often find themselves in positions where loyalties, principles and values conflict in a way which can be difficult to disentangle. Ethical reasoning can help people, firstly, to recognise that a situation has ethical implications and, secondly, to get as clear as possible a picture of what those implications are before they act. So there! (More at <http://www.idea.leeds.ac.uk/>)

Simon Caulkin is one of the country's leading management writers. Simon wrote a weekly management column at the Observer for 16 years, from 1993 to June 2009. Over that time what started out as the expression of a few loosely related – sometimes even contradictory – personal prejudices turned imperceptibly into something else: 'Observer management', or if you like a jointly-created manifesto for a 'management for the rest of us'. The mechanism that accomplished this miracle was an email address, printed at the bottom of the column. Feedback. A system! Readers wrote in to suggest, praise, complain – and almost always urge Simon to take the ideas further; with the result that after 15 years of testing and iteration they had cohered into a radical systemic view almost completely opposed to the current reductive, numbers-driven orthodoxy. Never mind what the books said – this was how management was experienced, and it mostly wasn't a pretty sight. Abandoned by the national press, at

least in the UK, management has never been more invisible. In the wake of a financial crisis that was entirely management induced, never has it been more important to expose the invisible assumptions that have led us where we are and recreate it in a better, more human form. (See Simon's website at <http://www.simoncaulkin.com/> for more details)

Douglas Board is founder of Maslow's Attic, a company that helps experienced managers to explore options and get clear about the future direction and shape of their working life. He is also Chair of the Refugee Council (a charity) and is a senior visiting fellow at Cass, one of the UK's top ten business schools. Douglas has recently completed a Doctorate at the Complexity and Management Centre of the University of Hertfordshire, has a first class honours degree from Cambridge and a Masters from Harvard. He has a varied past that includes working in the Civil Service, and as Consultant, Director and then Deputy Chairman of Saxton Bampfylde, one of the UK's leading search firms.