

BUSINESS ETHICS IN CRISIS⁺

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The present financial and economics crisis gives new light in the prevailing management model of mainstream business. The Occupy Wall Street and other anti-business movements, the widespread distrust in corporations and the questionable behavior of many business leaders indicate the crisis of the materialistic management paradigm.

Materialistic management is based on the belief that the sole motivation of doing business is money-making and success should be measured by the generated profit only. Psychologists have discovered the serious side-effects of materialistic value orientation. A lot of studies demonstrate that the more people prioritize materialistic goals, the lower their personal well-being and more likely they engage in manipulative, competitive, and ecologically degrading behaviors. (Kasser 2002)

1 The Role of Business Ethics

In today's world the ethicality of economic actions is often highly questionable and in many respects unacceptable. The ethicality of the economy should be considerably improved but there is a paradox here. If we want to develop the ethicality of our economic affairs only as a means to achieving higher efficiency, in the last result we will fail. We have a chance to improve the general quality of our economic activities only if our motivation is *genuinely ethical*; that is, only if we want to realize ethical conduct for its own sake.

2 Critique of Economic Reason

Peter Ulrich argues that business ethics is more than "applied ethics." In his view the primary task of an business ethics is to reflect on the form of economic reasoning - it is the critique of economic reason.

The history of economic thought reveals the "emancipation" of economic rationality from moral philosophy, a process that mirrors the historical process of the "great transformation" described by *Karl Polanyi* (1946), through which the economy has become disembedded from its social, environmental and

⁺ The paper presents the most important propositions of the *Handbook of Business Ethics - Ethics in the New Economy*. Oxford, Peter Lang Academic Publishers 2012. (Edited by Laszlo Zsolnai)

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cultural context. Today, the problematic consequences of the disembodied and unencumbered economic rationality represent a growing, real-life experience. In this situation, business ethics may fill the gap left open since the classical political economy was reduced to "pure" economics. (Ulrich 2012)

Ulrich believes that we should ask for a new ethical foundation for economic reason itself. Business ethics may provide a powerful critique of "economism" including economic determinism (which argues for the "force of circumstances" against ethical claims) and economic reductionism (which argues that the "morality of the market" is a sufficient guarantor of ethical reason). Rethinking basic ethical aspects of economic reason includes questioning the meaning of economic "rationalization" with regard to the good human life and criticizing the politico-economic order with regard to the development of a just and well-ordered society of free and equal citizens. (Ulrich 2012)

3 Beyond Homo Oeconomicus

The Homo Oeconomicus model states that agents are rational, self-interest-maximizing beings. Overwhelming empirical evidence suggests that people do not just care about their own material payoffs but also consider the interests of others. They are willing to sacrifice their own material well-being to help those who are kind to them and to punish those who are unkind to them. They take into account the well-being of strangers whose interests are at stake. They are also interested in their reputations and care about their self-conceptions. Economic behavior is co-determined by utility calculations and moral considerations. Two major factors can explain the ethicality of economic behavior, namely the moral character of the agents and the relative cost of ethical behavior. Economic agents are essentially moral beings, but it depends on the context that which face of the *Moral Economic Man* becomes effective. (Zsolnai 2012a)

The *shareholders paradigm* is no longer a suitable concept in the modern stage of market capitalism. The traditional theory of the firm is too restrictive to incorporate ethical values into the financial framework. In the property rights model, it is the shareholder that holds the residual risk and therefore the residual profit. The company is considered as a set of direct investments projects that convert inputs into outputs. In this materialistic view, a company is not a system of cooperating persons but a contracting institution that produces cash flows. From this perspective no social responsibility is involved. This approach is justified by selecting the shareholders as the optimal stakeholders to reduce the agency cost. This line of argument denies any explicit relationship between social cohesion and operational efficiency. (Soppe 2012)

In the 'ethical finance' approach, the neoclassical paradigm is replaced by a broader view. In addition to the necessity of competition and profitability, it includes the care for the environment, the social and physical health of employees, and moral responsibility for the risk run by creditors and other stakeholders. Unbridled competition encourages operational efficiency, but at the same time it is too limited to serve as a balanced allocation mechanism. Sustainable behavior often requires an increase in governance costs (e.g. due to the virtue of prudence) and therefore probably higher agency costs. On the other hand, in a more safe and stable environment, contracting costs may fall and create altogether more wealth for society. (Soppe 2012)

4 Business and Society

The relationship between business and society and the responsibilities of business towards society have been discussed under umbrella terms "corporate social responsibility" (CSR) and "corporate citizenship" (CC). Claims that analyze and emphasize the specific role of private corporations as "citizens" have recently gained increasing momentum. The citizenship role of corporations can be perceived as an ideal of the integral role of business in society that enables responsible business conduct.

Thomas Beschorner and *Christoph Schank* emphasize that both the liberal and the republican tradition provide an understanding of the nature of *citizenship*. While in the liberal tradition the good citizen respects the regulatory framework and protects his chartered rights against third parties, other citizens or the state, the good citizen in the republican tradition takes a more proactive stance and becomes a political actor. While liberalism emphasizes individual rights, republicanism emphasizes duties in and towards society. The corporate "citoyen" reflects the republican tradition, acting as an impartible citizen among citizens who is not torn between his economic interests and civic duties. Rather, he combines them in his *modus operandi*. From this republican perspective, corporate citizenship goes beyond corporate philanthropy and implies responsibility for a company's core business activities along its entire supply chain. (Beschorner and Schank 2012)

5 Organizational Ethics

In the view of *Josep Lozano* organizational ethics refers to the set of values that identifies an organization either as it is perceived by those working in the organization or by those who have dealings with the organization. Organizational ethics provides organizations with opportunities for learning and innovation. It is more than a process of awareness that allows organizations to reflect on themselves renew their identities - it is a project. We can consider organizational citizenship as a new public manifestation of an advanced and reflective organizational ethics. Organizational citizenship implies a broader vision of organizations as actors operating in a social context, and it highlights the role of organizations as social contributors and innovators. (Lozano 2012)

Knut J. Ims and *Lars Jacob Pedersen* emphasize the close connection between responsibility and ethicality. Personal responsibility has a crucial role to play in promoting ethical action in business organizations. From an action-oriented perspective the importance of deep emotions like empathy and justice should be emphasized. Personal responsibility can be contrasted to role-mediated behavior and common morality. In many cases the personally responsible action involves conflicting loyalties in organizations. “Exit”, “voice” and “loyalty” described by *Hirschman* represent alternative strategies for personally responsible action in organizational life. (Ims and Pedersen 2012)

6 Gender Issues in Business

Despite the universal agreement on gender equality women are still in disadvantageous position in contemporary society. The gender gap between man and women can be seen across many fields of life including business. Mainstream economics is male-biased as it presupposes an androcentric conception of the human person. With its exclusive focus on productivity today's businesses tend to undervalue female characteristics such as care and compassion. However, they like to use women as sex objects in marketing and advertising.

Based on the moral experience of women *Carol Gilligan* (1982) describes feminist ethics as an ethics of care. For women the self is constructed in relationships and their typical problem-solving strategy is communication. Insights from feminist ethics induce a new model of corporate governance where the key issue is to maintain and manage relationships of the firm in a mutually satisfying way. The postindustrial economy is more congenial to women than to men. Today's companies require more-feminine management style. Gender equality and feminist ethics are not only important for their own sake. They increase the performance of businesses and economies while contribute to the quality of life of men and women alike. (Wilson and Zsolnai 2012)

7 International Ethics and Globalization

To overcome anarchy in the international economic system some global governance is needed. This means developing efficient international institutions, utilizing the pressure of global civil society, and reinforcing the self-regulation of business. Multinational companies have the duty of cooperating in governance systems. They also have the duty of reconciling universalism and cultural relativism in their daily activities; i.e., of applying universally valid ethical principles and respecting authentic local moral norms. Multinationals must be guided by their enhanced responsibility both at home and abroad.

Zsolt Boda argues that globalizing efforts are important in overcoming international anarchy and protecting global commons; however, globalization in its present form is not sustainable. Globalizing tendencies have long been accompanied by political, cultural and religious fragmentation. And the functioning of the globalized economy contradicts the goal of sustainable development, because it leads to ecological homogenization, causes the overuse of resources and renders impossible the application of the precautionary principle. Some form of localization of the economy is certainly needed. The challenge is to find a way towards more global governance with less economic globalization. (Boda 2012)

8 Sustainability and Happiness

An ethical company has to pursue the overall objective of *sustainability*. At the corporate level, sustainability means the capacity of an organization to continue its activities over time, taking into consideration their impact on the natural, social and human capitals. Sustainable development is a fundamental goal that requires dealing with the different stakeholder groups in mutually reinforcing ways. In

order to pursue sustainability, companies have to adopt advanced and innovative policies and tools. (Tencati 2012)

A tragic fallacy in the Western world is the belief that higher income leads to greater *happiness*. Empirical evidence shows that not money but people make people happy. The more - the better strategy is a destructive track. Happiness is activity based and strongly related to self-realization and other-orientation. The Buddhist Kingdom of Bhutan demonstrates a comprehensive approach to human well-being by employing the measure of Gross National Happiness. In contrast Norway is a rich country which has problems of welfare diseases called "affluenza".

Knut J. Ims argues that the GDP-based welfare approach is a materialistic, economic description of human wellness. There is a need to complement this approach with "well-being" as a holistic, multidimensional description of human wellness. Happiness research and positive psychology may contribute to a development of more fruitful measurements. Deep Ecology assumes that self-realization for humans cannot be obtained unless they take into consideration the self-realization of other sentient beings. (Ims 2012)

9 Future of Capitalism

The *moral foundation of capitalism* should be reconsidered. Modern capitalism is disembedded from the social and cultural norms of society. The market fundamentalism - the belief that all kinds of values can be reduced to market values, and that the free market is the only efficient mechanism, which can provide a rational allocation of resources - should be abandoned.

We should find substantive value-backgrounds to develop alternative views on economic activities. For example, the economic teachings of world religions have a great relevance to the renewal of economizing. Among other world religions Judaism, Catholicism, Buddhism and Taoism proclaim life-serving modes of economizing which can ensure the livelihood of human communities and the permanence of natural ecosystems.

Economic activities should pass the test of *ecology*, *future generations* and *society* to get legitimacy in today's society. It implies that (i) economic activities may not harm nature or allow others to come to harm, (ii) economic activities must respect the freedom of future generations, and (iii) economic activities must serve the well-being of society. Ecology, respect for future generations and serving the well-being of society call for a radical transformation of business. The future of capitalism is highly dependent on its ability to adapt to the new reality of the 21st century. (Zsolnai 2012b)

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