

The Ethics of Business

By Christopher Drake, Hong Kong

Profits or prophets? Chris Drake looks over his shoulder at the latest perceptions of moral and ethical values in commerce.

In the past two years several major scandals have rocked the world of business. These have affected high-profile names in the City of London such as centuries-old Barings Bank, which collapsed under US\$1.3bn in debt, and the highly reputable Morgan Grenfell.

Elsewhere, the New York branch of Daiwa racked up losses of US\$1.1bn through trading US Treasury bonds, while the secret copper trades of 'Mr. Five Percent' at Japan's Sumitomo resulted in losses now put at US\$2.6bn. Prominent politicians in India and Pakistan, and even two former Presidents of Korea, have all been given leading parts in an unending gallery of greedy rogues.

In a case of widespread fraud at German steel and engineering giant Thyssen, one of the top anti-corruption prosecutors said "We are witnessing a loss of values in Germany. Moral and ethical principles in German boardrooms have gone to the dogs ... the only thing that seems to matter is profits and selfish materialism." Lax controls, the bending of rules and white-collar crime are seen as having reached epidemic proportions with allegations from Australia to Alaska tarnishing household names previously seen as representing the paragon of boardroom ethics.

It appears that in some countries public intolerance of economic injustice, exploitation and dishonesty is on the verge of exploding as more people are posing ever more searching questions. Instead of listening to companies saying "trust me", individuals are telling them "show me" and wanting to see proof of the honesty and integrity they tout to the world. Likewise, corporate leaders are thinking about their obligations to staff, families, investors and the public, wondering to what extent ethical standards are involved in making money and running a successful and responsible business. Can moral and ethical principles help sort the wheat from the chaff and distinguish good money from bad? And if so, how do we know it's not just psycho-babble or superstitious mumbo-jumbo, an unread "In God we trust" self-consciously tacked on to the back of a dollar note? When Christ threw the money-lenders out of the Temple, did that signify the fall of the sacred shekeldom, the eternal excommunication of Lucre from the house of God? On 20th century planet Earth is there really such a thing as an honest buck?

Over the years there have been some clear shifts of opinion with regard to the rights and wrongs of business. Gone are the days when vast concerns frequently depended on forced slave labour (although even today as many as 15 million children in India are reported to be working as virtual slaves). However, the reality of today's global marketplace is such that it is easy to challenge supposedly ethical investment and point out that the world's economies are all so inter-related that no one can be whiter than white. Miss Cleanhands may think she's smart not having anything to do with Global Gunrunners Inc. but does she realize what Truly Honest Bank is doing with

the money she used to buy shares in it, or even with the money she has in her Truly Honest current account? Yes, Truly Honest is lending poor Miss Cleanhands' hard earned savings straight to Global Gunrunners! And the interest that Global Gunrunners is paying to Truly Honest is going...straight into Miss Cleanhands' account!

Nevertheless, consumer power is being applied to put pressure on multinational companies—massive corporate giants typically based in a wealthier country but that take advantage of cheaper labour and infrastructure costs to locate manufacturing operations in poorer countries. One household name under the spotlight has been Nike. Workers at the factory in Indonesia that churns out 1.2 million pairs of shoes a month for Nike are on a basic daily wage of US\$2.23 while Nike icon Michael Jordan earns millions in endorsing the fancy footwear made by those humble hands. But how much does a holier-than-thou attitude benefit anyone? The paradox is that attempting to save the poor from the rich can end up preventing the poor from helping themselves. What may be a pittance for one is a living wage for another.

In recent years, at least, the idea of ethical investment came to prominence in the 1970s when the wave of anti-Vietnam war fervour extended to Americans withdrawing investment from companies involved in the war. A number of professional fund managers have since set up funds that enable members of the public to place cash with them for investment in companies chosen primarily on the basis of ethical criteria instead of just commercial ones. Now there are some US\$160 billion invested in easy conscience funds in America, and a more modest GBP1 billion or so in the UK. Managers of such funds generally avoid companies with interest in armaments, nuclear power, tobacco, alcohol or gambling.

Some companies might be favoured if they support environmental concerns, give to charitable causes, are active in the community or show greater concern for employees. While many small investors favour such an approach the first question is whether such funds can match the returns achieved by the more traditional funds. The dilemma for consumers is that evidence suggests that often they do not. Nevertheless there are people out there trying to make it work and there has been popular support for companies claiming not to sell products that are made using child labour or involve depleting the rain forests. With business increasingly taking a place at the forefront of social change, companies are in a unique position to shape and reflect public policy.

While such notions have begun to gain popularity in Europe and the USA they never took off in the free-wheeling money-making enclaves of Asia. In Islamic countries, however, the Sharia, or Islamic law, contains a number of restrictions on how money may be made. Profits derived from alcohol and gambling are clear taboos, as is lending money subject to payment of interest, as this is seen as usury, and some authorities will even reject donations made using interest-bearing credit cards.

Modernizing economics nevertheless need money and so this has given rise to the phenomenon of Islamic Banking in which funds are made available to others on condition that they are repaid without interest being charged. Ingenious solutions to the desire for a return on a risk-carrying investment include the issuing of 'Islamic securities' and banks taking a share of profits (assuming there are any) in lieu of interest. One of Malaysia's largest banks has just launched an Islamic credit card that

blocks use on transactions deemed non-Islamic, such as gambling, massage, and liquor and nightclub payments. It also offers holders benefits such as discounts on pilgrimages to Mecca.

The other side of all this is an industry that has sprung up in Europe and America in which management gurus and trainers are paid vast sums to talk to corporate executives about what often seems to be little more than plain common sense. They help companies adopt vision and mission statements and the like that often incorporate certain principles and values as part of the corporate culture.

Although it may be hard for most of us to put a value on ethics, many of these gurus seem to have no difficulty in merging profits with prophets and putting a high price on selling ethics in this way. The claim is that ethical business practices can offer a competitive advantage as they avoid losses arising from fraud and dishonesty and can lead to the building up of goodwill and a sound reputation.

While all these ideas are at least a step in the right direction there is always the problem that external regulators and trainers can be outwitted by those who do not see any reason why their activity should be restricted in such a way against their will. Far more effective therefore are limitations voluntarily observed on the basis of an understanding why they should be followed.

In reality humans are moral beings, endowed with reason, conscience and an innate understanding of primary and inalienable qualities such as justice, fairness, respect, honesty, responsibility, integrity and compassion. These moral values are not just universal to all humanity but also universal to all human activity i.e. they are just as valid and called for in economic and commercial life as they are in personal, family and social life. In other words, the values we should express in business are the values that we aspire to in our moral and social lives.

What does this mean in practical terms? A number of things including:

1. The business should not involve an activity of itself immoral.
2. Look closely at how the business is run. On what values or principles are decisions and actions based?
3. What are the motives of those involved in the business? Why are they carrying it out?
4. Given that the business itself passes these tests, what effect does it have on people and their lives?

When looking at the effect that business activity has, at the broadest level there may be an impact on the environment. A business that results in injury to the natural surroundings causes excessive pollution or destroys non-renewable natural resources, with a consequent loss to humanity as a whole, therefore runs the risk of being unethical.

Next there is the society in which the business is located; what effect does the business have on those people and their lives? For example, a tourism or entertainment business may unnecessarily disturb the community in the place where

the businesses is located because of the number of people it attracts, the times they are there or their activities so that the community as a whole suffers.

One more step closer to home are the business's customers: what effect does the activity or products sold have on them and their health and overall well being? Then partners and investors: are they treated with honesty, responsibility and fairness? Closer still to home are staff and colleagues: are our relations with them based on respect, fairness and integrity? What about my family: what effect is my work schedule having on them and am I acting with responsibility and understanding in relation to them? Then there is my physical health: is that suffering because of the way I work? And finally, what effect is the work having on my mental, emotional, moral and spiritual well-being? Am I remaining true to myself and keeping a clear conscience? What are the motivations for my action or the values or principles by which my actions are guided?

It's sometimes tempting to justify a wrong action by saying that it wasn't done with bad intentions, but motives alone are not a sufficient touchstone for judging whether an activity is right or wrong. Many wrongful deeds are motivated by misguided altruism, or the Robin Hood syndrome. While Robin may have been giving all to the poor and deserving, and keeping nothing for himself, the fact remains that depriving someone else of their property in such a way is theft. Even if it's done in the name of a good cause, a wrong action is still a wrong action.

While there may be some complexity when applying them to individual situations, the underlying and guiding principles are therefore clear. Business and investment should reflect ethical factors, and even in purely monetary terms, they may be more profitable in the long-term if they do so. One school of economics theory holds that prosperity comes when businesses are guided by the invisible hand of the market rather than being subjected to too many external controls and regulations.

Business people today are often motivated by fear and greed more than anything else and if pride comes before a fall then greed comes before poverty and fear before downfall. For profit with peace of mind what is now needed more than the invisible hand of the market is the invisible hand of God, or the conscious commitment to act in accordance with moral principles. If this sounds like a novel approach it shouldn't really as it was long, long ago that St Matthew summed it all up: "What is a man profited if he gains the world but loses his soul?"

This article was originally published by BK Publications (www.bkpublications.com) in Retreat Magazine #9 in 1997, at which time Christopher Drake was General Manager of Sassoon Securities Limited in Hong Kong.
