

# International Business Ethics Review

A Publication of the International Business Ethics Institute

Volume 4, Issue 1

## Ethics in the New Millennium

By Dr. Barbara Ley Toffler

In considering what business ethics will look like in the third millennium, I am inclined to say that, frankly, I have no idea. What critical events will shape individual minds, incite or politicize communities, horrify or inspire society in general? Even if those events were known, their impact on the field of business ethics would be difficult to predict. For example, who could have predicted the impact of the ethics triggers of the late 20th-century United States – Vietnam, Watergate, the Savings & Loan crisis, Challenger, etc? Here were tragedies, each in large measure the result of flawed decision-making, individual hubris and unresponsive organizational environments. Would anyone have anticipated the formulaic remedy of codes, ethics officers, hotlines and training programs – a remedy unlikely to have prevented any of those problems? Yet, this is what comprised business ethics in the United States in the last decade of the millennium. With that caveat, let me offer not predictions but some combination of hopes and expectations for business ethics in the next few decades remembering that Shakespeare wrote, “Oft expectation fails, and most oft there where most it promises.”

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## The Status of Business Ethics: A UK Perspective

By Simon Webley

Business behavior is clearly linked to the general standards in society. This supports the argument that the business community should encourage the best standards of practice. Thus, at the turn of the century with a global economy rapidly evolving, it is appropriate to stand back and consider the role of business ethics and standards. The inevitable difficulties of formulating effective, cross-cultural corporate values and standards are formidable. One way of confronting this issue is by examining the **Strengths** and **Weaknesses** of business ethics, the **Opportunities** it has to exert itself, and the **Threats** that stand in its way.

### Strengths

Business ethics is constantly gaining strength as governments, corporations and citizens are beginning to understand the importance of morally respectable business practices within a society. Incidents of bribery, insider trading and money laundering represent significant concerns and they have resulted in strict law enforcement and the adoption of ethics programs in well over half of Western corporations.

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### SPECIAL FOCUS: BUSINESS ETHICS AND THE MILLENNIUM

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# From The President

By Lori Tansey Martens



The following two statements seem particularly appropriate to mark the *International Business Ethics Review's* first issue of the twenty-first century:

*I believe in corporations. They are indispensable instruments of our modern society. I believe they should be so regulated that they shall act for the interests of the community as a whole. We must handle the water, the woods, the grasses so that we will hand them on to our children and children's children in better, and not worse shape than we got them.*

These are not the words of an NGO at the turn of the millennium. On the contrary, U.S. President Theodore Roosevelt uttered these words nearly 100 years ago. How much has changed. How much remains the same.

A century ago, the average employee worked 10 hours a day, six days a week. Health insurance, worker's compensation, paid holidays and other benefits, which we in the Western world largely take for granted, were virtually unknown. Women and minority groups were actively discriminated against not only in the workplace, but also in the classroom, at the voting booth, and in almost every aspect of society.

We should not lose sight of the impressive advancements made by the world of business over the past 100 years. Yet, as President Roosevelt alluded to, much of this progress has been a direct result of regulation - at the local and national levels. Fortunately, more and more industries are recognizing that self-regulation - through business ethics and corporate social responsibility programs - are in everyone's best interest. The question we must now consider is whether or not we will continue to witness a similar rate of change throughout the new century. Will people in 2100 look back aghast at our current business practices? Or have businesses already reached a point of reasonable equilibrium among the competing demands of stakeholder groups, thereby necessitating only minor, incremental shifts in current business standards and practices?

The continued need for business ethics visionaries and leaders within the ever-changing world of business remains constant. Much as some of President Roosevelt's beliefs were ahead of his time, the new century requires new thinking and novel approaches. And so, we asked several visionaries and experts in business ethics from around the world to share their perspectives on the outlook for the field. Inside these pages you'll find commentaries from the United States, the United Kingdom, China and Africa. And as always, we welcome your views and predictions on what the twenty-first century holds in store for business ethics.

The new century has equally brought significant change to the Institute's own operations. In October, we welcomed Ms. Elfrida Taylor as Project Coordinator and Administrative Assistant and in November, we bid adieu to Ms. Kris Day. And this past year, we welcomed Dr. Terence Tsai to the Institute as a Senior Consultant. Please see pages 14 and 15 for more Institute news.

I speak for the entire Institute staff, its Board of Directors, and its Board of Advisors in saying that we look forward to the

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# Is it Time for Business Ethics in China?

By Dr. Georges Enderle

Over the years I have been asked whether or not it is time for business ethics in China. Those who believe that it is *not* time have advanced four reasons to explain their position. First, as a developing country China must develop its productive forces before addressing ethics. Second, top priority should be given to market forces, which if allowed to work without hindrance will yield wealth and resolve many ethical problems. Third, for an orderly transition from a planned to a market economy, China must establish a strong legal framework so market forces and personal interest will not jeopardize economic development. Fourth, even if one agrees business ethics is important for China, controversy remains surrounding which form of ethics to apply: modern Confucian ethics, socialist ethics or Western ethics? Such arguments have motivated me to formulate a response as to whether or not it is time for business ethics in China. My conclusion: Yes, the time has come.

From a long-term, global perspective I believe that business ethics is paramount to all societies at the turn of the millennium. Why? Major driving forces for business ethics lay in an increasing importance of business, a growing diversity of ethical beliefs and an ever more pressing need to address these complex issues. Let us begin by identifying several driving factors behind the Western business ethics movement and examine whether or not they apply to China:

## 1. *The argument of scandal*

Scandals naturally provoke outrage along with a call for new and better business practices. In spite of the dramatic publicity they receive, one just reacts, mostly with a lot of emotion rather than with an understanding of the background. Scandals can shake up but do not result in lasting change of practice.

## 2. *The argument of economization*

This argument does not refer to single events but to society as such and states that business is playing an increasingly important role in guiding the whole of social life; in other words, an "economization" of society is underway. Economic thinking and acting are penetrating and dominating more and more domains of life. Only what counts economically and yields profit is relevant.

## 3. *The argument of "good ethics is good business"*

"Good business" and "good ethics" go hand in hand. Ethical conduct lies in the self-enlightened interest of companies and is seen as an important motivational and unifying force to compete in the global marketplace.

## 4. *The argument of future challenges*

We all face great challenges in the years to come. Instead of merely reacting, we should act in an anticipatory, proactive, and "entrepreneurial" way.

It seems to me that – to some degree – all four rationales apply to the Chinese situation. I wish, however, to focus my attention on the latter two, more elusive arguments by asking what major challenges China will face in the next ten years and how these challenges can be approached in ways attractive to business.

## **Major challenges**

### *Sustainable human development*

Of the many challenges ahead for China, perhaps the greatest is to strive for sustainable human development. As the United Nations Development Programme proposed, human development surpasses purely economic development to include life expectancy, basic education and income per person. It also involves the long-term perspective of "sustainability," which the World Commission on Development and Environment defines as "[meeting] the needs of the present without compromising the ability of the future generations to meet their own needs."

Can we elaborate on this concept of development in the Chinese context? The issue of sustainable development clearly touches on China's *environmental* policy. While its environmental laws and regulations are quite advanced, their implementation is problematic. The question of sustainable development also pertains to China's *health* and *education* policies, which are not only important for the people themselves but also for successful economic development. Healthy, educated people may cost but they are powerful, necessary resources for a thriving economy.

### *A modern system of relatively autonomous social institutions*

For China, modernization – moving from a planned to a market economy – will involve multiple trends of disentanglement. For example, the political and the economic spheres will become more distinct entities, and a civil sphere with a certain independence from the political and economic spheres will emerge. Then, within the economic sphere, different forms of companies develop. State-owned enterprises as state agencies change into independent enterprises. On the one hand, this

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disentanglement allows for more autonomous, discrete social institutions, a better focus on their specific roles, agents and objectives, and more effectiveness in pursuing these multiple purposes. On the other hand, this "separation" necessitates answering the vital question of what holds these separate roles, agents and institutions together. A strong legal framework is essential but can only help regulate human behavior in a limited capacity. A *common ethical ground* must also be found. Modernization risks becoming chaos in the absence of a common ethical ground, breeding uncertainty and corruption. Without a doubt this, too, is a significant challenge.

## *What kind of common ethical ground?*

Numerous voices inside and outside China say that the country – like others – is in a deep moral crisis. These voices must be taken seriously but should not lead to exaggeration or alarmism. At the current stage of China's development, it seems difficult to fully apprehend its complex moral situation, let alone make fair judgments about it. In other words, much caution is warranted. However, this should not prevent one from striving to *improve* China's moral situation.

What are the different ethics resources in China? Roughly speaking, China has been influenced by a 2,500-year legacy of Confucianism, a 50-year history of Socialist regime, and, due primarily to China's "Open Door" policy since 1978, a multitude of international, Western, and non-Western influences. Hence, three major ethical traditions can be identified, each having its distinct characteristics and variants. Finding a common ethical ground that comprehends all these traditions is neither possible nor desirable. Rather, what is at stake is a common ground, which is nurtured by these traditions and also respectful of their distinctiveness. Furthermore, the common ground should not be all-embracing, instead it should be directly related to the significant challenges that China will face.

## *Addressing the ethical dimension of the reform of state-owned enterprises (SOEs)*

The reform of SOEs is a core issue of the overall economic reform in China. If the SOE reform fails, the overall reform fails too. However, economic and legal considerations have dominated discussions, with the ethical dimension rarely considered. The problems abound and range from fundamental issues like building socialism with Chinese characteristics to practical questions like dealing with older, laid-off female workers and attracting innovative employees. Special emphasis should be given to the notion of "economic responsibility," which highlights profitability, but includes much more than that, and should be balanced with social and environmental responsibility.

## *Importance of individual ethics for business leaders,*

## *employees, consumers and investors*

As long as we conceive of business life as an enormous machine in which individuals are just small cogs, individual ethics has no place. Economic laws, rules and roles completely determine people's behavior. If their individual ethics tells them to act differently, they necessarily violate economic rationality. Frankly speaking, I disagree with this common belief. Certainly, individuals are subject to numerous constraints and have to follow "the rules of the game." But in most cases they do have some freedom to choose between two or more alternatives. They can make a difference, and this is, I would say, a major challenge for business ethics. Continental European approaches to business ethics tend to overlook the significance of individuals. But, if the role of individuals in business ethics is insignificant, how can we teach business students or train managers? "Good" business leaders not only excel in managerial techniques, but serve as role models of integrity.

## **Conceptual and theoretical foundations**

To develop business ethics in China, we need an acute sense of the major challenges arising from practical business life. We also need a solid conceptual framework to analyze those challenges and to recommend appropriate policies. Of my many thoughts on this subject, I offer two:

### *A "two-leg approach" to business ethics*

Business ethics can assume various meanings; hence, I propose a "two-leg approach" to encompass all of the complexities, an approach that on the one hand, gives equal importance to understanding business and on the other, the distinct ethical component. Although one might think this view to be common sense, it has only recently made a breakthrough in the field of business ethics. Most approaches focus on one perspective and neglect the other. To illustrate my point, corruption should be analyzed from an ethical perspective *and* from a business perspective. Additionally, "good" business leadership should be examined in terms of business expertise *and* ethical competence.

### *A three-level conception of business ethics*

In addition to considering both business and ethical implications, we should also strive to examine a situation at various levels. My experiences in international business ethics have shown the benefit of distinguishing (at least) three levels of decision-making and acting in business: the levels of the individual economic actor, the economic organization, and the economic system. Each level has specific goals, interests and motivations that

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# Is it Time for Business Ethics in China?

often differ and sometimes conflict. For instance, the interest of a company may collide with the interest of the national economy, or the responsibility of a Certified Public Accountant can conflict with the low accounting standards of her company. Therefore, it is crucial to consider these differences and the sources of potential conflicts that are located, so to speak, at the "interfaces" between different levels.

## Conclusion

Developing business ethics in China is an enormous but rewarding challenge. It is a process of trial and error, and no one can offer straightforward recipes for success. Fortunately, a considerable number of academics in China are already working in the field and policy makers, business people and citizens are exhibiting a growing concern for business ethics. My insights and suggestions have resulted from my experiences of the business ethics movement in other parts of the world. In the final analysis, it will be up to the Chinese to develop their own approaches by making use of the rich, untapped resources available in China.

*Dr. Georges Enderle, a founding member of the European Business Ethics Network (EBEN), is O'Neil Professor of International Business Ethics in the Mendoza College of Business at the University of Notre Dame and President of the International Society of Business, Economics, and Ethics. This article is an abridged version of Professor Enderle's speech, "What Perspectives For Developing Business Ethics In China?", delivered on March 5, 1999, in Hong Kong.*

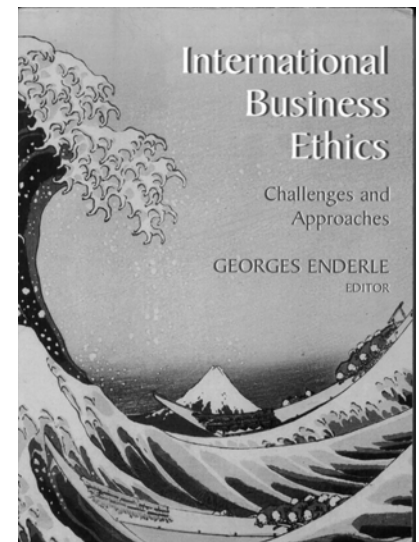
## Recent Business Ethics Publications

### *International Business Ethics: Challenges and Approaches*

As we advance toward a global marketplace, it becomes increasingly important for businesses to be aware of cultural diversity and to avoid the mistake of adopting ethnocentric attitudes. *International Business Ethics: Challenges and Approaches*, edited by Dr. Georges Enderle, is a collection of articles by business ethics specialists who address the rapidly evolving and increasingly significant topic of acceptable business conduct in a distinctly international context.

Presentations initially made at the First World Congress of Business, Economics and Ethics in 1996, served as foundations for this collection of articles. The publication deals with four key areas: the diversity of the business world, the role of corporations in business ethics, the commitments of business leaders and, finally, the growing importance of the East Asian economy and its need for business ethics.

Amartya Sen, 1998 Nobel Prize winner in Economics, of Cambridge University (United Kingdom), Hans Küng of the Global Ethic Foundation (Germany), Simon Webley of the Institute of Business Ethics (United Kingdom), S.K. Chakraborty of the Indian Institute of Management (India) and Henri-Claude de Bettignies of INSEAD (France) contributed to this work. Topics range from cross-cultural information technology to violence and the legitimacy of international intervention to the roles and responsibilities of multinational corporations. Enderle's book identifies and confronts these challenges in a comprehensive and effective manner. The book draws conclusions that mark the need to advance toward a concrete global economy that is concerned about corporate welfare, as well as the responsibility of business to take the lead in this endeavor.



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Released in April 1999. *International Business Ethics: Challenges and Approaches* may be purchased from the Marketing Department, University of Notre Dame Press, 310 Flanner Hall, Notre Dame, IN 46556, USA. For additional information, contact the Marketing Department by phone: (219) 631-6346, by fax: (219) 631-8148, or by E-mail: undpress.1@nd.edu. The cost of the publication is \$55.00 (cloth) and \$27.00 (paperback) plus postage & handling.

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# The Status of Business Ethics: A UK Perspective

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International public and private organizations now have an increased interest in ethical issues involving business – principally in the field of corruption. The OECD and the International Chamber of Commerce are two exemplary organizations that have been combating extortion and bribery within the global marketplace. They are also indicative of the gradual agreement on some common, world-wide standards for global business operations.

An awareness of “stakeholder relations” further promotes the practice of good business ethics as companies are realizing the impact of decisions outside their control, and how these decisions could hurt the reputation of the company in the public’s eye. For example, in the 1970s the dominant issue was whether or not to invest in and trade with businesses run on the basis of apartheid. Today, the number of ethical issues has multiplied and multinationals are trying hard to avoid moral confrontations that might result in their stakeholders’ disapproval.

## **Weaknesses**

Amidst the promising news surrounding the development of business ethics, there are inevitably weak components. Far too many business leaders cannot see the point in having an ethics policy or code of conduct in their organizations. “We have no written code of ethics here,” writes the chairman of a large UK corporation, “I subscribe to the philosophy that integrity and fair and proper business conduct are fundamental.” This statement does have its weaknesses because some employees are bound to stray from this philosophy, however strongly it is held at the top.

The lack of attention given to the ethical concerns of small and medium-sized businesses is another area of concern. There is too much research on business ethics that assumes that all private-sector commercial organizations behave in similar ways or have similar problems. In fact, over 95 percent of firms in most national economies are composed of fewer than fifty people but they provide the majority of jobs. It is, therefore, surprising that this distinction between large and small companies, which function in different ways, has not been more widely recognized with regard to ethical behavior.

Finally, under this heading, there is a weakness in the value basis of most corporate ethics programs. Research has shown that certain terms of value – integrity, trust, fairness – recur in the mission statements or prefaces to company codes. They are not, however, universally accepted, and business leaders do not appear to see eye-to-eye on the issue. This is why initiatives like the Caux Round Table’s Principles for Business, the Sullivan Global Principles and the Ceres

Principles for the environment are important in trying to reach an agreement on fundamental values and principles underlying global as well as national business.

## **Opportunities**

The opportunity for business ethics to show itself as useful is by no means slim. Enhanced educational opportunities, coupled with the availability of world-wide information at minimum cost, have provided the public with a greater desire to be involved in decisions affecting their lives. Governments and shareholder groups are demanding transparency and accountability on the part of multinational corporations, given the potential high profile incidents that poor corporate behavior can lead to. Furthermore, campaigning groups are raising a variety of concerns with corporations, which need to be addressed.

The promulgation of the Federal Sentencing Guidelines (1991) in the United States, together with the stringency of the U.S. Foreign Corrupt Practices Act (1977), has given a strong impetus to corporate ethical programs in the United States. Calls for the accountability of issues other than financial are being met with the implementation of corporate social responsibility programs that urge companies to become more proactive on such issues as human rights and the environment. The opportunities for business ethics lie in the willingness of companies to adopt these corporate social responsibility programs that sustain respectable relations with their stakeholders.

## **Threats**

One threat is the lack of integration of ethics with corporate policy. With a few exceptions, insufficient effort is being made to familiarize employees with business dilemmas and how to exert moral initiative. To be taken seriously, ethics within the business place must acquire an aura of significant worth. This can only be achieved if employees recognize the distinction between right and wrong and are given guidance in the matter.

The general lack of ethics topics in corporate training programs poses another threat to sustaining high moral business standards. The best practice is to infuse all training programs – ranging from those for directors to new employees programs – with some ethics-awareness element, like a mini-case study. Additionally, training employees to fully understand business ethics relies on competent and qualified instructors. The lack of these instructors, coupled with the continuing competition between philosophy and management teachers concerned

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with business ethics, is yet another threat to the long-term sustainability of responsible business.

## Conclusion

As we begin the new millennium, the subject of business ethics is growing in the Western world and has started to be reviewed by governments and academics in Asia. With no agreement, yet, on how to approach the ethical dilemmas that incorporate different religious and cultural backgrounds, globalization of economic activity remains difficult. The issue of whether moral integrity in business can be improved is a challenge that must be confronted. Increased educational efforts that stress a genuine respect for moral righteousness, rather than a forced compliance with laws is one route. For business ethics to succeed, we must build on its strengths and minimize its weaknesses by taking every opportunity to combat the present apathy that exists above the table.

*Simon Webley is Research Director of the Institute of Business Ethics in London and is the author of a number of publications on business ethics. These include Company Use of Codes of Business Conduct and Codes of Ethics and International Business. Mr. Webley acts as a consultant to the International Business Ethics Institute.*

## Recent Publications from the Institute for Business Ethics

### *Where Did That Come From? - A study of ethical issues in the supply chain*

This report introduces and analyzes the key ethical concerns within supply chain management. Pressures from the media, campaigners, customers, government trade unions and other stakeholders are encouraging companies to take responsibility for the welfare of workers in their supply chains around the world. This report, produced by Rosey Hurst & Mary Arnesen of Impactt Limited, examines the approaches of leading multinational companies to show how companies not already involved in these issues might begin to work within their own supply chains. It provides a step-by-step guide to getting a grip on this issue and describes the current best practices of leaders in the field.

### *Priorities, Practice & Ethics in Small Firms*

This report by Laura Spence includes a survey of 100 small firms in the United Kingdom, which investigates their social and ethical concerns and in what way these differ from those of larger companies. The survey shows that owner-managers run their businesses in ways that are consistent with their own values and principles. It shows that employee relationships are key to the success of small firms and includes ten practical rules for good business conduct in small and medium-size enterprises.

*Readers interested in obtaining a copy of either of these publications should contact the Institute of Business Ethics directly. (Contact information appears in text box, right of page.) Each publication costs £20.00.*

## Organization Spotlight:

### The Institute of Business Ethics

Founded in 1986, the UK-based Institute of Business Ethics (IBE) set out to combine social responsibility with efficient business operations. IBE is associated with over 50 supporting companies and trusts. It offers practical advice to companies wishing to establish ethical policies and is an intermediary between smaller businesses and large companies with experience in ethics programs. The Institute holds conferences and consultations and publishes annual reports on business ethics, the environment and employee health. As of the beginning of 2001, the Institute had released a total of 20 publications. Among its major objectives, IBE seeks to:

- Emphasize the essentially ethical nature of wealth creation,
- Encourage the highest standards of behavior by companies,
- Publicize the best ethical practices, and
- Show that business ethics involves positive enterprises as well as constraints.

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# The Future of Business Ethics in Africa

While many Western companies now offer business ethics training to their employees, companies operating in developing countries have been slower to address business ethics concerns. In most African countries, for example, multinational corporations – primarily from North America and Western Europe – are the only organizations to have implemented business ethics initiatives. So where does this leave business ethics in Africa at the turn of the century and beyond?

## Issues

Wealth and talent are certainly present throughout the African continent, yet significant problems lie in endemic corruption and the misdirection of assets. Civil servants are not well paid and often provide discreet services like cover-ups for breaches of taxation and law enforcement issues in exchange for bribes. Everyday “stealing from the till” takes place in civil organizations while, in the larger picture, company executives and government officials often embezzle funds and run scams.

Looking at South Africa during the Apartheid era, it is easy to see how corruption emerged there. During this time, not only was great hostility present in the working environment, but heavy unemployment caused low productivity rates that damaged the economy. As a result, corrupt practices emerged and even after Apartheid ended, these practices remained part of local business customs.†

Business ethics is bound to suffer in situations where bribes are seen as part of normal procedure, and corruption thrives, in part, due to low salaries. If an employee is the only working member in his/her family, relatives often pressure this individual to provide such essentials as medical support or tuition. Thus, employees are often “encouraged” to supplement their meager incomes through unacceptable means. Regarding business, it is often found that defrauding large companies is acceptable because they are faceless benefactors.

## Recommendations

If business ethics is to become an established practice in African companies, reforms must be made within the countries’ various institutions. Listed are the areas in which these reforms are needed, followed by recommendations of how solutions might be attained.

### *Government*

On the governmental level, regulatory bodies must enforce guidelines. The police have to follow standard procedures for bringing criminals to justice and judges must, then, issue

reprimands supporting the idea that “crime does not pay.” Anti-corruption committees should regularly publish progress reports that name offenders and exclude them from public bidding. Most importantly, independent auditors should regularly monitor government accounts to ensure that the assets of government officials are kept in check. The rest of Africa’s economic reformation will be in jeopardy if a positive standard cannot first be set at the government level.

### *Private Sector*

The private sector must make greater effort to create codes of conduct, offer business ethics training to employees, and monitor the behavior of employees. As free enterprise grows in Africa, an ethical business system must be firmly in place so that multinationals are willing to invest in African economies. Publicly traded companies should, as in South Africa following the King Report, identify how they have or have not complied with their own codes of conduct on a yearly basis.

### *Media*

The media must also refuse to be a part of the problem, as it often participates in the cycle of corruption along with the public and private sectors. If a company wants a positive report written about it, the normal procedure is to offer a bribe to the appropriate party. This practice must be replaced with honest reports of corruption and its negative consequences on business and society in general.

### *Public Education*

Finally, educational efforts are essential if business ethics is to succeed in Africa. Events such as round tables, conferences and seminars should regularly be organized to bolster ethical standards and goals. Non-profit, educational organizations should be urged to make business ethics information widely and freely available. Without proper educational tools and workshops, an ethical business system cannot be established. Education must remain a top priority if ethics programs are to be understood and implemented.

## Outlook

Accounting for cultural diversity is essential not only for Western countries, but Africa’s countries as well. Greater effort must be made to establish a system of business ethics that is consistent with and respects African cultures. Although the percentage of corrupt activity is high throughout the African Continent, it is not found everywhere. For example, certain large African corporations do have codes of ethics and ascribe to international accounting and legal requirements. This small band of ethical leaders should be encouraged to pursue their

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# The Future of Business Ethics in Africa

ethical stance and serve as positive role models to other business leaders in Africa.

The potential to make a difference exists, but resources are lacking. This is, however, slowly changing. For example in June 2000, the Zimbabwe National Chamber of Commerce hosted a business ethics conference at Victoria Falls for regional business leaders and government delegates. With regard to establishing a dependable and ethical economy at the beginning of the new millennium, I believe that African countries have started on a road to reform that will eventually lead to success.

†*Journal of Business Ethics*. Volume 16, no. 14. October 1997.

*Brian D. is a business person who works in Africa for a Europe-based multinational company. He has had extensive experience in conducting business on the African continent. At his request, we have withheld his real name in order to maintain his anonymity.*

## Ethics in the New Millennium

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### A Decline in Hypocrisy

While it may fly in the face of everything we know about human nature, I believe future business leaders will recognize that words have limited value without actions to support them. These leaders, along with their organizations, will be judged by what they do, not by what they say or by what their public relations people write. I believe that the decline in hypocrisy will be accompanied by an increase in truth-telling and a greater acceptance and valuing of reality, however flawed. Furthermore, I believe we will see that energies spent on “spinning the truth” will be freed to creatively and effectively manage the tremendous complexities of future global commerce.

### New Responsibilities

While ethical concerns about privacy, first amendment rights and other current issues will continue to demand our attention, I believe we will see new ethical expectations for those who develop and distribute advanced technology. As this technology develops beyond the capability of the layperson to fully understand and control it, debate will heighten about the responsibility of developers and distributors for the ways in which their products are used or misused. Many years ago, the humorist Tom Lehrer wrote a ditty about a well-known scientist that closed with the line: “‘Once the rockets are up, who cares where they come down. That’s not my department,’ said Werner von Braun.” In the future it will be less and less acceptable for those who build technology to separate themselves from how that technology is put to use. And it will be increasingly likely that mechanisms like medicine’s doctrine of Informed Consent and recourse to malpractice litigation will be part of the technology landscape.

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*“I believe we will see new ethical expectations for those who develop and distribute advanced technology.”*

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### Business Ethics as Effective Forecasting, Decision-making and Problem-solving

Finally, I believe that ethics in the global corporate community will become an inherent part of business and management practices. Rather than standing as a preemptive barrier to the conduct of business activity, ethics will become part of the very context within which decisions are made and actions are taken. Ethics will be a key criterion in economic, political, and social forecasting; it will inform critical corporate decisions and it will enhance complex problem-solving. In sum, my hopes and expectations for the next millennium are that business ethics will move beyond compliance, public relations and wishful thinking to take its place as a driver of effective and successful economic activity. In this new millennium, I hope we shall begin to take business ethics seriously.

*Dr. Barbara Ley Toffler advises, teaches, and consults in responsible business practices, managerial decision-making, organizational behavior and ethics. Previously, she founded and became Partner-in-Charge of Arthur Andersen’s Ethics & Responsible Business Practices consulting service. She is the author of Managers Talk Ethics: Making Tough Choices in a Competitive Business World, as well as numerous articles. Dr. Toffler is also Chair of the International Business Ethics Institute’s Board of Advisors.*

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# Business Ethics versus Corporate Social Responsibility: Competing or Complimentary Approaches?

By Juliet Altham

The twenty-first century has arrived and corporate ethics appears to be evolving into two separate – but, perhaps, not necessary exclusive – fields: **Business Ethics** (BE) and **Corporate Social Responsibility** (CSR). This article contrasts some of the defining features of each approach and explores the significance of BE and CSR for business strategies and practices.

## Framework for Analysis

While the extent and nature of BE and CSR programs vary greatly from one organization to another, this article has taken the following premise as a point of departure: the primary goal of BE programs is to **prevent harm** while the objective of CSR initiatives is to **do good**. To facilitate the analysis of this subject, the four following areas of distinction will be examined to establish how BE and CSR function differently (particularly in a U.S. context):

- relation to regulation,
- reactive versus proactive strategy,
- identification of stakeholders, and
- extent of responsibility to stakeholders.

## Relation to Regulation

The historical roots of BE and CSR in the United States have significant bearing on their current differences. BE programs were originally implemented in the defense industry to help companies comply with the increased regulation following a series of scandals. The 1991 U.S. Federal Sentencing Guidelines provided additional impetus by mitigating corporate fines for companies with “effective ethics programs.” Hence, the motivation for many BE programs was compliance with regulatory guidance and company standards of conduct.

BE programs also provide a method of managing risk by developing early warning mechanisms to identify and address potential problems. These methods of managing ethical issues prevent harm, first by defining boundaries of acceptable behavior, then by mitigating such potential damages as monetary penalties, loss of contracts or loss of reputation.

CSR dates to the 1950s when academics and corporate leaders began to recognize and articulate the impact of corporations on society. Today, numerous constituency groups recognize what pervasive effects business has in

such areas as the community and the environment, in addition to the economy. Now more than ever, demands are being placed on business to have a positive effect in these areas. The general public’s expectations of corporations have risen: corporations are no longer expected only to obey laws, but also to be accountable to higher principles and values like economic justice, human rights and environmental stewardship.

## Reactive or Proactive Strategy

Another distinction between BE and CSR can be drawn from the strategies that each approach deploys. For example, ethics officers focus on responding to hotline calls: employee questions and concerns. Therefore, they become involved in resolving a problem only after it has been identified. While this reactive strategy does little to prevent a problem, it can succeed in minimizing the risk of more serious problems. Resolving a problem can, however, lead to the development and implementation of processes and procedures to help avoid the problem’s reoccurrence.

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***“CSR’s approach involves the use of proactive strategies, like creating new business practices to initiate change.”***

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CSR’s approach involves the use of proactive strategies, like creating new business practices to initiate change. Ironically, by sticking its neck out in the support of certain causes or values, a CSR company may actually increase rather than minimize its risk, depending upon which causes or values it elects to support. Many companies, like the Body Shop and Ben & Jerry’s, have also used CSR as an effective marketing tool to enhance their reputations. Several critics have reported that companies, including the examples cited above, have used CSR programs as a means to effectively deflect criticism or public outcry when they do err.

## Identification of Stakeholders

Most business ethics programs are focused internally by making employees responsible for their behavior with regard to other employees, as well as with respect to the company’s other primary stakeholders. Codes, therefore, often identify areas of potential harm in the immediate relationship a company has with shareholders, suppliers and customers. For example, a code might espouse the principles of honesty

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# Business Ethics versus Corporate Social Responsibility

and fairness in contract negotiations because their absence would increase the possibility of harm to the relationship. The CSR approach typically defines stakeholders more broadly and is more concerned with the company's responsibility to the community. Such an approach recognizes a contractual bond between business and society, whereby society provides essential resources to businesses in exchange for social benefits.

## *Extent of Responsibility*

Once a company has identified its stakeholders, the extent of responsibility it assumes for these stakeholders varies according to whether a BE or CSR strategy is employed. A company might implement a BE program to prevent such employee problems as abuse by managers, sexual harassment and discrimination. Few companies develop ethics programs with elements that take responsibility for doing good on behalf of their employees, like reviewing family benefits or addressing unfair pay scales.

Nike's dealings with its international vendors provide an example of corporate action with regard to the different levels of responsibility that BE and CSR provide. When problems surfaced regarding the abuse of employees and unfair wages in the factories producing Nike athletic shoes, human rights activists pressured Nike to assume responsibility for the employees of its independent contractors. At that time, Nike's contractors agreed upon a code of conduct and the monitoring of health and safety standards. Auditing firms were then brought on board to monitor such issues as unfair wages, work schedules and child labor. Hence, Nike essentially accepted responsibility for preventing harm to any worker associated with manufacturing its products.

As pressure and publicity increased through the mid-1990s, Nike extended its activities. For example, the code, itself, was tightened to surpass local laws to promote better working conditions with restricted working hours. As part of its monitoring and improvement program, the company undertook cultural sensitivity training for its contractors' expatriate supervisors. And in Pakistan, Nike took a creative approach to the problem of child labor in factories producing soccer balls by paying to educate those children rather than letting them work. Nike thereby broadened its level of responsibility beyond merely preventing harm to promote child education and better working conditions in the international communities in which it operates.

## *Significance for Corporations and Business Leaders*

The Millennium Poll on Corporate Social Responsibility (published by Environics International Ltd., the Prince of Wales Business Leaders Forum and the Conference Board) surveyed over 25,000 people in 23 countries about their expectations of companies. [See chart, below.] The results reflect decidedly high expectations of business' obligations and responsibilities to society. As societal expectations and pressures mount, organizations will be forced to exhibit strength in both BE and CSR

<b>Millennium Poll Chart</b>			
Selected results from poll identifying citizens' expectations of companies (by percentage of respondents).			
	<b>Make profit, pay taxes, create jobs &amp; obey laws</b>	<b>Operate between the two positions</b>	<b>Set higher ethical standards &amp; improve society</b>
<b>Australia:</b>	8%	43%	45%
<b>Canada:</b>	11%	45%	43%
<b>Great Britain:</b>	17%	42%	39%
<b>Mexico:</b>	25%	26%	35%
<b>Japan:</b>	32%	18%	33%
<b>Germany:</b>	33%	31%	34%
<b>South Africa:</b>	35%	23%	34%
<b>China:</b>	44%	22%	31%
<b>Russia:</b>	28%	23%	23%
<b>United States:</b>	11%	53%	35%

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domains. Those involved in BE and CSR activities will want to review their companies' current strategies to ensure they can meet these demands. The following questions are intended to serve as a useful starting point for intra-company discussions about these issues:

## **Corporate Strategy Issues:**

- How does compliance mesh with different cultural and legal contexts? For example, how is a compliance strategy implemented outside the jurisdiction (and national history) of the U.S. Federal Sentencing Guidelines? Do specific cultural values determine areas of stakeholder accountability?
- Should the company anticipate the changing concerns of its stakeholders through ongoing dialogue with its stakeholder groups? Or should it address stakeholder concerns only once they arise?
- Will the company focus on maintaining standards of integrity within its own business practices or position itself as a vehicle for change – even for changing standards within its own industry?
- Does the company have aggressive goals for its standards in such areas as the environment, the treatment of employees and diversity?
- Does the company pursue membership in organizations involved in promoting high business standards and practices?
- Does the company have standards dealing with internal workplace issues? Are employees educated on these standards?

## **BE/CSR Program Issues:**

- Of the company's stakeholder groups, whose expectations and interests will this program address?
- What is the status of the BE/CSR manager according to his/her level of input? Does the manager develop, interpret, or enforce policy?
- What mechanisms are available to facilitate external stakeholder consultation and feedback?
- What is the relationship between the BE/CSR function and other corporate functions? For example, is the BE/CSR manager a part of the legal, human resources, or public affairs department? Does this person have close ties to the community relations or environmental department? What is the reporting relationship?

## ***Outlook***

As international markets and businesses expand, so does the influx of ethical difficulties within the workplace and the communities in which businesses operate. It is in each company's best interest to develop and incorporate elements of both

*Juliet Altham is Social Investment Analyst for the Co-operative Insurance Society Ltd in London England. Previously, Ms. Altham was a writer and consultant in business ethics and corporate responsibility. She has worked with a number of business ethics organizations, including the Institute of Business Ethics (UK), the Ethical Trading Initiative (UK), the Center for Business Ethics (U.S.), Business for Social Responsibility (U.S.), as well as the International Business Ethics Institute.*

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# GLOBAL ROUNDUP:

*Recent activities and efforts in the field of business ethics from around the world.*

## Africa/Middle East

**Morocco:** Morocco marked January 6, 2001, as a national day to fight corruption. Mr. M'hamed Al-Kalifa, Moroccan Minister of Administration, blames corruption in the country on bureaucracy and complex administrative procedures. (*Respondanet.com*)

**Nigeria:** At a conference of the Association of National Accountants of Nigeria (ANAN), the director Prof. Benjamin Ossiona advised multilateral foreign donor agencies to encourage the institutionalization of accountability and transparency in granting loans and technical aids as a way of reducing corruption. (*The Guardian*)

## Asia Pacific

**APEC:** The Asian Pacific Economic Cooperation has initiated a plan to increase transparency in government finances. (*APEC*)

**Indonesia:** An independent corruption body is to be established in Indonesia within the next two years. The plan is a component of President Abdurrahman Wahid's vow to end corruption in Indonesia. (*Transparency International*)

## Europe

**European Commission:** The European Commission called for the national lawmakers in its member states to establish a common definition of sexual harassment and to enact appropriate legislation. These laws would then hold companies accountable for informing employees of their rights and for responding quickly to complaints of harassment. (*Dow Jones Newswire*)

**Russia:** In November 2000, Sovereign Ventures Inc. and Bronze Lion Ltd. founded the Center for Business Ethics in St. Petersburg, Russia. The Center is a non-profit organization devoted to establishing business ethics in St. Petersburg and to providing the local business community with information on world-wide best ethics practices. The Center evolved from the "Declaration of Integrity in Business Conduct in St. Petersburg," a private-sector initiative supported by more than 130 local businesses. To learn more about the Center and the services it provides, contact it by phone +7 (812) 324-67-06, by fax +7 (812) 327-31-25, or by E-mail at [alinasvi@online.ru](mailto:alinasvi@online.ru).

**Slovakia:** In November 2000, the government of Slovakia made combating corruption a top priority and approved a national plan to fight corruption. The action plan includes a coordination unit and provides for setting up institutions specifically to engage in anticorruption activities. (*Dow Jones Newswire*)

**Switzerland:** In August 2000, the Swiss government nullified the tax advantages of paying commissions to consultants in foreign countries, a practice that has long been illegal in other countries. (*Dow Jones Newswire*)

## Latin America

**Argentina:** The Argentine government is creating an Internet site that will detail how the funds for the annual budget will be allocated, allowing for proper finance management (*Transparency International*).

**Brazil:** The International Society of Business, Economics and Ethics held the Second World Congress of Business, Economics and Ethics in São Paulo, Brazil, in July 2000. The Congress addressed the ethical challenges of globalization. (*ISBEE*)

**Peru:** Interim President Valentin Paniagua of Peru has pledged to take a tough stance against corruption. He has established measures to prevent corruption suspects from fleeing the country without standing trial. This action results from the corruption scandals of November 2000, when former president Alberto Fujimori was declared unfit for office. (*Dow Jones News*)

## North America

**Canada:** Prominent business and public sector leaders met in Ottawa, Canada in September 2000, for an international conference focusing on workplace ethics, good governance and civil society. (*International Institute for Public Ethics*)

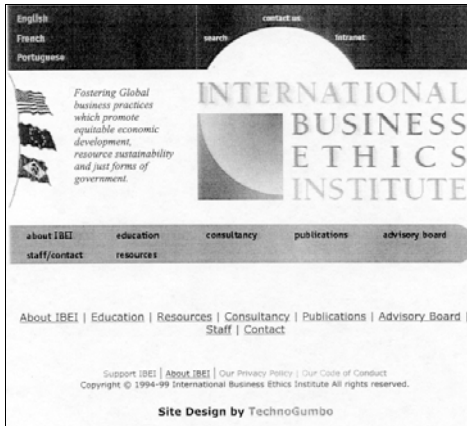
**United States:** Socially responsible investing in the United States has grown to \$2.16 trillion, an 82% increase from two years ago. Hence, one of every \$8 invested in the United States represents further awareness of ethical responsibility. (*Reuters*)

## World-wide Developments

The signing of a new overall trade and aid agreement between the European Union and 77 African, Caribbean, and Pacific states took place in June 2000 in Cotonou, Benin. Transparency International has signaled this event as a renewed attempt to pursue good governance and to combat corruption in these locations. (*Transparency International*)

# Institute News

## Plans to Improve and Expand Institute Web site



The Institute has begun the process of redesigning and expanding its Web site. Mr. Joseph Mathews developed and implemented the site's new appearance. Subsequently, Mr. Russ Anderson brought online the Institute's Intranet site, which has greatly assisted Institute projects and staff members. In addition to its current features, our Web site will soon include our Web pages in both French and Spanish. The translation of our Web pages into French and Spanish was made possible by a generous grant from the Weyerhaeuser Company Foundation. Selected Web pages will also be available to our Internet visitors in Chinese, German and Portuguese.

Plans are already underway to expand our Web-based services. For example, we will enhance the site to allow guests to access other relevant ethics Web sites from our own pages. Additionally, the Institute hopes that its Web site will enable a wider audience to have access to the information contained in the

*International Business Ethics Review*. Finally, we wish to bring a highly interactive element to our Web pages by offering interested parties an opportunity to participate in on-line surveys and questionnaires about business ethics issues that influence and shape the landscape of international business.

The Institute's site can be found at <http://www.business-ethics.org>. We welcome any comments you may have and would like to hear your suggestions on how we might improve and expand our Web site to better address your needs.

## A Word of Appreciation to Our Contributors

The International Business Ethics Institute would like to recognize and thank the following individuals and organizations for their generous contributions to the Institute since the *Review* was last published:

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## Additions and Changes to the Institute

### **Professor Terence Tsai, Senior Consultant**

We are pleased to announce that Professor Terence Tsai has joined the Institute as a Senior Consultant. Professor Tsai will assist in the Institute's advisory services for corporations and organizations seeking to develop transnational ethics initiatives, particularly with regard to the Asia-Pacific region.

Professor Tsai is currently Assistant Professor in Business Strategy at the Chinese University of Hong Kong, Department of Management. As assistant professor in Business Strategy, he designs and teaches BBA and MBA courses on business management, strategic management, business strategy and the natural environment. Professor Tsai's key areas of teaching and research include Chinese Management, international business, strategic management, cross-cultural management, organization theory and environmental management.

Professor Tsai received his Ph.D. from the University of Cambridge, The Judge Institute of Management Studies, United Kingdom in 1997. He obtained his Master of Science degree from Harvard University in 1990, and his Bachelor of Science from Cornell University in 1987. Professor Tsai is a fluent speaker of Mandarin and Amoy Chinese.



### **Elfrida Taylor, Project Coordinator and Administrative Assistant**

In October, Ms. Elfrida Taylor joined the International Business Ethics Institute as Project Coordinator and Administrative Assistant. As project coordinator, Ms. Taylor is responsible for managing the process of delivering high-quality ethics training to Institute clients. Ms. Taylor also assists in the production of the *International Business Ethics Review*.

Previously Ms. Taylor served as a graduate student intern at World Relief, where she represented World Relief on advocacy issues, tracked areas of concern around the world, and developed strategies to educate the public on refugee issues. Ms. Taylor also served as a program associate at Meridian International Center of Washington, DC. During her term with Meridian, Ms. Taylor assumed such responsibilities as training, tracking logistics, program development and proposal writing.

Ms. Taylor brings a solid background of international experience to the Institute. She has resided within a variety of different regions/cultures including Europe and Africa, as well as having traveled extensively throughout the world. Ms. Taylor is a fluent speaker of French. She holds a B. Commerce degree in Economics and a graduate Diploma in Institutional Administration from Concordia University in Montreal, Quebec. Ms. Taylor also holds an MPA from Howard University, where she concentrated in public policy.

### **William Miller, Director**

In October 2000, William Miller became a Washington-based Director for the Institute. In his new position, Mr. Miller will take greater responsibility for creating and managing the Institute's educational activities and programs. He will also play a more integral role with respect to the corporate advisory work of the Institute. Mr. Miller will continue to assume the role as the editor of the *International Business Ethics Review*.

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