Business Ethics –
The Founding Principles

by Peter Ulrich and Thomas Maak

A company becoming a ‘good citizen’ will not only make the world a better place but will also add to shareholder value. An integrative approach is essential.

A decade after the historic victory of the free market economy over its communist counterpart it would be a fallacy to think that we reached “the end of history” in terms of the final triumph of market liberalism. As the clash of “Seattle Man” and “Davos Man” and numerous protests against a rather one-sided model of global capitalism have shown no system, be it political or be it economical, can survive in the long run if it lacks the legitimacy of those involved. Thus, thrown back on itself and lacking a true rival, the free market economy is more than ever forced to legitimate itself from the inside.

People today are not only questioning the impact of an ever faster and globalizing economy but also the impact of economic growth on the social and natural environment in which we live. The unsolved problem of a deteriorating natural environment, constant pressure to rationalize the world of labour and to work more and longer hours, as well as the hectic pace of a market-oriented lifestyle are leading many people to question whether economic “progress” is really improving our quality of life. Have we perhaps lost the sense of proportion and the feeling for the pre-eminent values in (business) life? Contemporary critics are not alone in finding it increasingly difficult to escape this conclusion.

An historical perspective

We are witnessing a growing need to redefine our basic values and the purpose in our lives; at the same time there is growing awareness of the fundamental meaning of the moral dimension (Etzioni, 1988) in business and society. However, the project of reconciling economic rationality with ethics to form business ethics is still perceived as out of the mainstream and thus unusual or even provocative. Some may ask whether “business ethics” isn’t actually a contradiction in terms. Is it not “unrealistic” to expect the world of market economies – which, after all, operates according to its own “economic laws” – to comply with ethical standards – especially in an era of globalization when no one can afford to undermine his or her competitive position? And, even if ethical compliance were possible, are there moral claims or values which are universally valid and unequivocal so that global standards could be developed? Business ethics appears to be a difficult “undertaking” given these objections. Let’s therefore start by taking a look at the subject as it exists in everyday life.

In its fundamental, practical sense, economic activity means “creating value” (value added), i.e. commodities and consumables to satisfy human needs. Since any reasonably efficient economy functions on the principle of division of labour, it is out of necessity governed by the rules of social interaction and distribution of profit. Socio-economic “value-creation” can thus be understood as a practice that has always been based on moral values and norms and is inescapably founded on certain ideal concepts of the good life and just coexistence between individuals. Business ethics is, therefore, inevitably concerned with the fundamental consideration of the meaning and purpose of human existence and the moral principles on which economic activities are based.

Renewed receptiveness towards the ethical aspects of business comes as less of a surprise than the formerly dominant belief that economics and business management were “neutral” and “untainted” by values. A brief look at the history of economic thought offers some useful clues. The economic science was originally part of ethics and politics. In Aristotle’s writings, ethics, politics and economics are three parts of a whole. Adam Smith’s classical liberal thought was influenced by the Stoics and by British deism, which placed the market firmly within an ethical, political and metaphysical concept – in contrast to the widespread but perfunctory
interpretation of Smith as a radical laissez-faire economist. It was not by chance that classical liberal economic theory claimed to be Political Economy. The idea that ethics, politics and economics formed a single unit reflected the true position of the economy within the normative confines of society.

The development of the modern economy radically changed the relationship between the economy and society. The cultural basis offered by the Protestant work ethic (Weber, 1985) merged with the technological basis of the industrial revolution to foster a sort of “unfettered” economic rationalization. Release from the normative constraints of tradition pushed society headlong into industrial modernization and gave rise to the systems character of the modern economy – soon the system became divorced from everyday life (Habermas, 1985). Today, this two-world concept of non-value-based economic theory and “purely” independent economic interests on the one hand and philosophical ethics on the other hand has to be considered both in theoretical and practical terms as the core problem.

As long as ethics and economics remain indifferent to and separate from each other, there can literally be no point of mediation. These two disciplines need to be brought together systematically if economic rationality is to be set on a course that includes both ethical legitimacy and efficiency. The problem here is to integrate modern economics and ethics without reducing one to the other. This is by no means an ivory-towered academic problem. We should recall that there are always two sides to any reasonable economic activity: the question of reasonable (i.e. legitimate) ends and the question of finding rational (efficient) means to reach these reasonable ends. But what are ethically reasonable ends?

**What is the moral point of view?**
The object of all ethical considerations is the phenomenon of morals or good behavior as it is perceived within a society. Morals are based on values and behavioral norms derived from the traditions of that particular culture; they determine the way life is lived, irrespective of the degree to which members of a group or a society are aware of it. Morality, on the other hand, is the “nature” or the fundamental disposition of man as a cultural being with moral sensitivities (a conscience) and the ability to make moral judgments. Our existence depends on

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2. For further reflections on the ‘other’ Adam Smith, see Meyer-Faje/Ulrich, 1991.
moral bearings and direction in a very fundamental way. The morality of man has thus to be understood as a universal aspect of the human condition (Plessner, 1964).

The Greek term *ethos* can be understood as the moral awareness that a person uses to define him- or herself and which defines the moral principles guiding the way a person lives. The ethos of a person, a community or a profession (e.g. lawyers, entrepreneurs) incorporates all the normative convictions that create an identity, give inner meaning and direction to activities in general or to a specific aspect of life such as the professional activity. They provide a background against which behavior is justified to others and oneself. As distinguished from a personal ethos, modern *ethics* describes the philosophical and critical reflection on *good reasons* for the legitimation of moral claims, i.e. on reasons which appear reasonable to anyone open to rational argument. The guiding idea of ethics is thus never to impose moral teaching merely received by tradition and driven by interests or ideology but always to express reasoned criticism of morals, interests and ideologies. Modern ethics aims at the critical scrutiny and the continuing development of moral traditions; it is a formal way of practical (normative) reasoning. This is exactly what suits the general conditions of a modern society: modernity means that all claims for theoretical validity (truth) and practical rightness (moral obligations) be justified, and this is why credible morals today are unthinkable without ethical reflection.

However, this type of reflection on good reasons also emphasizes the *relativity* of moral traditions. In other words, morals are always culture-bound and thus not necessarily transferable into other societies and cultures. This is the background against which the tendency to *ethical relativism* must be understood. From the fact that competing moral traditions exist, e.g. in different cultures, the relativist draws the conclusion that it is impossible to justify any intercultural, universal moral principles.

We can find such relativism in international business relations, especially those with (quasi) totalitarian states from other cultures, where companies may seek to legitimize their actions with the argument that customs are simply different elsewhere. Or, more so, they may act according to the old saying “In Rome do as the Romans do”. But then, is it advisable, to do business in countries like China or Nigeria, whose governments systematically disregard fundamental human rights?
From an ethical point of view the answer might well be no. Not to mention the potential missteps through more than likely ethically questionable behavior once a company solely follows local standards where no adequate moral standards exist.

It seems, though, as if the global competitive economy leaves not much room for a single company to act globally on universal moral principles. To ensure the compliance with at least minimal moral standards in an era of globalization we therefore need intercultural standards for the practical attainment of moral reason. We need a guiding moral point of view that is universally applicable. One approach is to establish moral principles which are so fundamental in their nature that they must take precedence over every culture-specific tradition and can claim universal validity (ethical universalism).

The very fact of being human provides a platform for such a universal moral point of view. We know that as human beings we are dependent upon mutual moral recognition. Mutual recognition in terms of emotional affection, solidarity and citizenry (political and legal recognition) creates and enables our being (Honneth, 1994; Maak, 1999). It is therefore reasonable to propose the categorical preservation of human dignity and recognition of basic human rights as a minimum ethical standard which requires no further justification.

Humanistic ethics based on mutual recognition does not need to be derived from any dogmatic or enforced “superhuman” values. Its foundation is a reflection on the normative logic of mutual moral claims between free people who respect each other on the grounds of the reasonable insight that in human interactions (business interactions are human interactions and thus socio-economic activities) they all have an equal moral right to freedom and human dignity. From this principle of reciprocity emerges a moral point of view that aims at the greatest possible and equal freedom for all people and that all reasonable people thus can recognize as valid and compelling. Once the categorical precedence of the other's human dignity and autonomy over egocentric concerns is acknowledged for its own sake the principle of reciprocity is expanded into the principle of moral universalisation.

In the highly competitive environment of a globalizing market economy, the importance of such an ethos of universal and categorical interpersonal recognition and respect is abundantly clear. It serves as the basis of all inter-personal relationships and wherever it is missing, humanity is absent. Thus, it should also
form the basis of intra-company relationships – i.e. between employees and especially between different levels of hierarchy – as well as external relationships with customers, suppliers and other stakeholders.

It is important to embed the principle of universalisation and thus the moral point of view into a language-based moral community, since the principle of universalisation is more than a thought experiment of a single reasonable person; it should reflect the core of a moral community of enlightened human beings who acknowledge each other as persons capable of and open to argumentation. The only legitimate (i.e. justified) behavior is then to pursue those “private” interests that have passed the test of universalisability in that they give precedence to the dignity and moral rights of all those who are potentially affected. What we are talking about is no more and no less than the “regulative idea” (Kant) of a reasoned (not only factual) consent (qua deliberation) between adults on the vital, universal preconditions for a well-ordered, just and democratic society of free citizens. A similar consent on a transnational and multicultural level may then, in turn, constitute some form of global minimal ethics – a sort of “planetary macroethics” (Apel 1993, p. 204) to legitimate minimum moral standards which are interculturally valid and capable of bringing about a much needed basic moral consensus in an era of growing globalization.

**Integrating business and ethics**

As a point for critical reflection, modern business ethics must fulfill the task of generating *orienting knowledge* (Mittelstrass, 1982), a guiding awareness of reasonable purposes, principles and preconditions for business (know *what* and *why*). The *dispositive knowledge* provided by management science on the other hand, is concerned solely with the problem of efficient business – in other words: how to realize given aims efficiently or to handle technical problems with the limited resources available (know *how*). But business practice raises technical *and* normative problems, and touches upon questions of ethical and practical reason as well as instrumental and strategic rationality. The fundamental task in business ethics is thus to reconcile economic rationality with ethical reason, first in principle and secondly in an applied, institutional perspective which can guide practical action.
The crucial questions therefore are: How is the systematic role of ethical reflection defined within or in relation to economic thought as such? Where is the locus of moral claims in the market economy? Which supportive measures can be applied to business practice?

There are different approaches that may constitute business ethics, just as there are different ways to think about ethics in society. Not everyone is equally well suited to provide us with the necessary thinking tool and to give moral guidance. Firstly, there is the widely held view that the sole task of business ethics is to restrain the economic drive for profit in cases which raise considerable moral problems. This perspective restricts the role of business ethics to a corrective factor which needs to be applied against too much economic rationality. However, since this understanding of rationality is not questioned as such, the result is a compromise in which economic logic is only restricted by ethics instead of being integrated with ethical reason. It wrongly presupposes that there is an area in which economic market control functions “without ethics”. The mistake here is failure to realize that every conceivable form of market economy is a political arrangement and it has to be justified in its entirety in terms of ethics. Market solutions to problems of social interaction and integration are on no account value-free and neutral but depend on the given relations of power and resources between the trading parties. That is why every market interaction has a moral dimension. The question is, are the participants aware of it and if so, do they have the ethical means to cope with it?

Secondly, in contrast to this “corrective” approach, there is a way to think of business ethics as a purely economic theory of morals (moral economics). It is argued that moral behavior in business may be a useful idea. Moral economics thus analyzes the function of morals from an economic point of view and identifies the possible benefits of certain types of moral behavior. The essence here is that the actions of the actors should be determined not by moral intentions (good will) but solely by their economic interest, guided by an institutional framework of economic restrictions (incentives or “disincentives”).

3. See Homann/Blome-Drees, 1992, as a representative proponent of this moral economics approach.
But this is like asking a fox to watch over the geese in ethical terms. In a strictly economic consideration morals are considered as resources or scarce goods; their absence must cause social “friction” and their production and social status benefit the economic subjects of the economy. It may of course be important and wise to show how economic subjects can be relieved of a moral burden through cleverly positioned economic incentives. It is, however, easy to see that the reduction of ethics to economics misses the core problem we identified above; this type of “business ethics” does not contain the vital ethical minimum in terms of the imperative moral rights of people. What if moral behavior has no economic advantage? In that case, the strictly self-interested market player has no motivation to nonetheless pay heed to the legitimate claims of others. Ethics conditioned by economics cannot be considered true ethics since the point is precisely to respect the “inviolable” basic rights and dignity of every human being no matter what the circumstances are (unconditionally).

In stark contrast to these approaches, the integrative business ethics approach, as developed at the Institute for Business Ethics at the University of St. Gallen (see Ulrich, 1997), starts from a critical reflection on economic reason itself. The guiding idea is to reconstruct the normative grounds of business in modern philosophical and ethical terms. This leads to a concept of socio-economic rationality that already includes legitimacy. In other words, the integrative approach perceives legitimacy (in the sense explained above) as a constituting element of overall economic reason or socio-economic rationality. Contrary to “moral economics”, the normative preconditions for legitimate business activities are considered predominant and not subordinate to economic interests, because legitimacy needs to be maintained for its own sake (and not only as a means to successful business). And in contrast to merely corrective business ethics, the integrative approach does not stop at defining moral limits to economic rationality and business activities from an outside perspective, but aims at the enlightenment of the normative logic of market economies and of the moral setting of doing business from within. Accordingly, integrative business ethics is a permanent process of comprehensive reflection on the normative preconditions of legitimate “value-creation”. This process is characterized by the moral deliberation of all people who are willing to reason and open to reasoned argument.
In modern business ethics, the question of the institutional framework of the markets is extremely important. Business ethics can neither be based purely on an individual sense of ethical responsibility nor revolve solely around the structural question of the necessary political and societal framework; rather we have to distinguish and integrate three vertically aligned levels: politico-economic ethics, corporate ethics, and citizen ethics.

**Politico-economic Ethics**

Politico-economic ethics is concerned with critical reflection and implementation of general rules and a market framework which can be expected to generate overall results that are acceptable from both a human and an ecological point of view. An open and unconditioned deliberative process between politicians, business and the critical public should be encouraged to ensure that the framework in which the market is embedded is a fair and sensible one. This, however, can only be achieved if all participants realize that the process of reforming the economic and social order depends on reforms not being blocked every time the changes affect the interests of a specific group; if they realize that there is basically only one legitimate “interest”, which is the ethical interest in establishing general rules for legitimate and fair competition. Such rules should preserve the moral rights of all those involved or affected, including future generations (principle of justice), and give everyone the same chances in life (principle of fairness).

Today, an ethically reasonable definition and implementation of a guiding framework for the global market economy presents a new and major challenge. This will be a framework within which national economic policies have to be embedded and which comprises moral guidelines to ensure a secure path into the internet economy.

**Corporate Ethics**

An integrative approach of corporate ethics is based on three major *leitmotifs*: the idea of innovative syntheses of business and ethics, of a dialogue-based corporate policy and of political co-responsibility of business for the market framework. To begin with the latter: the crucial point here is that entrepreneurs and their lobbyists must not adopt a “free-rider position” whenever the specific interests of
their company or an industry sector is “threatened“ by ethically inclined reforms. On the contrary, the willingness to share responsibility for legitimate and meaningful rules of competition will be a sign of well-defined corporate ethics. Who, if not business players with their expertise and potential for political influence, would be able to set the necessary processes of reform in motion and even more to fulfill them? Companies and their associations thus bear a considerable “co-responsibility” for the market framework. Self-regulative actions such as the product stewardship program in chemical industries or joint initiatives to create and promote a better way of doing business like the Social Venture Network point in the right direction. A clearly focused human rights-policy, minimal social and ecological standards that include health and safety standards and a consensus on child labor, as well as a commitment to business integrity and thus the refusal of bribery and corruption on a global scale are other issues that come to mind.

The second postulate aims at a corporate dialogue between all those affected by the internal and external costs and benefits of a company’s activities - in one word: its stakeholders. The entrepreneurial drive for success is increasingly being affected by the growing potential for conflict as a result of corporate decisions and credibility has become one of the most important yet scarcest resources. One aim of business ethics must therefore be to establish a dialogue of understanding between the company and all those groups who might make legitimate moral claims (customers, employees, stockholders, suppliers, governments, the general public etc.). The guiding idea is the “public use of reason” (Kant; see Rawls, 1993, pp. 212f.): in business ethics too, the “reasoning public” is the crucial locus of morality (see Ulrich/Sarasin, 1995). Royal Dutch Shell, for example, has recognized this and has implemented, in the aftermath of the disastrous events around the intended sinking of the oilrig “Brent Spar” and the civil rights violations against the Ogoni people in Nigeria, a quite remarkable stakeholder dialogue.4 Shell is also a good example in terms of “corporate ethical learning”; a process in which the reflection on crisis was followed by a revision and expansion of the guiding ethical principles, accompanied by training measures throughout the company and the installment of the stakeholder dialogue.

4. See the remarkable Shell-Report “Profit and Principles” and the ongoing corresponding debate.
Now, since corporate ethics also requires the company to act responsibly within its immediate market deals, the third postulate relates to the moral center of a company’s business strategies (its “mission”). In view of the specific difficulty of reconciling business and ethics on this level, one of the most important corporate tasks is to exploit potential syntheses between morality and (market) success. The practical starting point for such business-ethical syntheses is the basic insight that not everything that is of economic advantage is immoral, and not everything that is ethically legitimate is commercially disadvantageous (see Ulrich/Fluri, 1995, p. 67).

Ethical business syntheses of this kind do certainly not occur automatically, or in fact have to occur at all, so companies must pursue innovative business strategies whose ethical legitimization and responsibility is founded on good (moral) reasons. This means that business success should always also be defined with respect to the ethical content and the practical value of the business strategies on which it is based.

**Citizen Ethics**

At an individual level, citizen ethics concerns three basic roles of economic actors: the citizen, the member of an organization, and the consumer and investor. We should be aware, as citizens, of the importance of what it means to live in a free and just society. An enlightened citizen will therefore support the maintenance of a meaningful societal order as well as any necessary reforms. He develops a republican ethos and self-awareness in line with Kant’s idea of *civic republicanism* (Kant, 1968b) as the quintessence of enlightened citizenship, and acknowledges the predominance of the *res publica* – i.e. that public interest in peaceful coexistence and a just social order must override all private interests. The subordination of private interests to the common good and, more particularly, to the basic moral rights of all people is understood as the ethical basis of economic freedom and legitimacy (the integrative approach). The citizen will thus seek and pursue a “good life” which is compatible with that of his fellow-citizens.

Most citizens are in one way or another *organization or institution citizens* (Nielsen, 1979). As such, they should have the same right to express their opinions freely and critically within whatever company or organization they work for; to question ethically dubious expectations which their superiors may have of them, or
ethically questionable behavior within the company. Even though an employee should in principle be loyal, this loyalty is overridden when possible company actions violate higher-ranking moral considerations or the basic rights of other people. The last escape for an employee might be to “blow the whistle”, as for example Jeffrey Wigand has done on his employer Brown & Williamson and the American tobacco industry. This action led to the landmark agreement between industry and U.S. Government. It is therefore important that management demands critical loyalty from its employees and institutes measures (e.g. an ethics officer, ethics committee, or confidential ethics hotline; see below) to ensure that the rights of its employees are protected (Ulrich, 1995).

Finally, the role as a consumer/investor indicates that it is up to us, as citizens, to make intelligent decisions and signal to markets, governments and fellow-citizens that ethics matters. One may think of the growing demand for organic food and the increase of ethical investments. As critical consumers or investors we are in a position to act and exert moral pressure – individually, as part of a civil action group or as a member of a critical shareholders’ association – on producers and entrepreneurs who are not (yet) pursuing legitimate moral standards.

References and further readings

5. The story is dramatized in the excellent movie “The Insider”.

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Business ethics, also called corporate ethics, is a form of applied ethics or professional ethics that examines the ethical and moral principles and problems that arise in a business environment. It can also be defined as the written and unwritten codes of principles and values, determined by an organization's culture, that govern decisions and actions within that organization. It applies to all aspects of business conduct on behalf of both individuals and the entire company. In the most basic terms, a definition for business ethics boils down to knowing the difference between right and wrong. Business ethics refers to the application of ethical principles and moral values while conducting business. A company must demonstrate ethical behaviour in all internal matters as well as in dealings with the external environment. All stakeholders must ensure that ethical standards are adhered to while handling business transactions. Business ethics studies the special obligation which a man and citizen accept when he becomes a part of the world of commerce. As a matter of fact, business ethics deals with morality in the business environment. That is why it is that business ethics refers to the system of moral principles and of conduct applied to business. Learn about While understanding the basic principles of business ethics is important, it is arguably more important to understand how these ideas apply to day-to-day business operations. Here are some examples of how ethical behaviors can be practically applied. Putting Customer Needs First. Companies that build their workplace culture around putting customer needs first and hiring people who engage in this behavior are participating in ethical behaviors. For example, if a customer comes into a store looking for a product that meets very specific needs, it's important to provide them the best product. Principle of Transparency. Ethics denotes the concept of purity and truth. All the business activities and transactions should be well informed with justified manners with their different stakeholders and society. Ethics tells us the way to act in a certain situation not just to achieve a particular objective but considering everything around us. Business ethics refer to a set of professional or applied ethics that review or study ethical or moral principles and ethical or moral problems that appear in any business environment. Issues regarding business ethics arise when there is a conflict between profit-maximizing and the concept of social and legal responsibilities of the business.