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Business ethics, corporate social responsibility and corporate governance: a review and summary critique

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Abstract[*]

The success of modern business is apparent, but recently there is much concern in the business-and-society literature and in the general press on whether business fulfils its social role responsibly. Business ethics, corporate social responsibility and corporate governance movements have been developed in recent decades as responses to a growing sense of corporate wrongdoing. This paper attempts to explain why the three movements seem yet to have generated little in the form of widely accepted prescriptions for improvement of business behaviour to the satisfaction of the "constituents" of business, i.e. the major stakeholders. Without denying the usefulness of any of the three movements, the paper suggests that there are weaknesses in all three, especially concerning the way they conceive modern business operation. To this end business pluralism, responsive codes of practice and re-examination of the assumptions (conditions) of business operation could be helpful.

Keywords*: Business Ethics; Corporate Social Responsibility; Corporate Governance; Business Ideology; Business Conduct; Business Pluralism; Responsive Codes of Practice; Conditions of Business*

JEL Classification*: M 140, D 210, G 340, L 000*

1. Business success and its critics - the issue in context

In the business literature there is a major strand that celebrates business strength and seeks formulae for success. This strand was manifested in the Scientific Management tradition dating from Frederic Taylor's work in the early twentieth century (Taylor, 1911) and continued through the Human Relations studies of Elton Mayo that sought to find growth through taking care of the "people

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dimension" (Roethlisberger and Dickson, 1939). The tradition was further developed following the publication by Peters and Waterman (1982) of their book *In Search of Excellence*, and by Goldsmith and Clutterbuck (1985) in *The Winning Streak* and by the movement for business process re-engineering (Hammer & Champny, 2001)

In contrast, a parallel discussion has always existed concerning the growth in (compulsory or voluntary) systems and organisations established for regulating international and national business, and indeed, for protecting consumers from some of the effects of the less admirable business behaviour. In the United States, antimonopoly legislation has existed, for example in the Anti-Trust laws from the 1880s. Consumer lobbies have successfully campaigned over the safety of motorcars and many other issues.

However, business activity has also raised a wide range of critical views expressed largely in the communications media. The presence of critiques of business activity is not a new phenomenon. In particular, business activity by large enterprises has always faced criticism. Some of the critics have been internal[1], but other criticism is extended to the way large businesses behave towards small businesses and dominate consumers, suppliers and the labour market, for example[2]. Some of these issues have given rise to legislation and to regulatory agencies, designed to remedy particular problems or excesses that have been identified. The publication of the International Labour Organisation's Labour Standards in the 1920s resulted from reports of abuses as well as from the economic disruptions following the First World War. These standards have often been reported as being systematically and chronically evaded in many areas.

Following these criticisms, three movements have emerged in America and Europe in recent decades, which appear to offer ways of alleviating corporate abuse. They have much in common, despite their different origins and different emphases. They are: *business ethics, corporate social responsibility* and c*orporate governance*.

The purposes of the present paper are:

1) to review these three movements in the light of the literature that serves them, and in the light of the problems they seek to address;

2) to identify their similarities and differences;

3) to provide a summary critique based on the notion of business as an ideology that could benefit from the introduction of a more pluralistic conception of the role of business and management;

[1] In the early twentieth century, Frederick Taylor's *Scientific Management* was a criticism of the management practices of the day as inefficient. Human relations' theorists such as Herzberg and MacGregor, staple contents management education, criticised business and management as unable, for behavioural reasons, to provide "productivity release". Modern advisers urge business to strive for "competitive advantage" and "excellence" (See for example Peters & Waterman Jr., 1982).

[2] For an updated discussion of gains and losses of the modern business system, see Davis & Donaldson (1998), Chapter 5, and Naomi Klein (2000).

4) to explain why the three movements seem yet to have generated little in the form of widely accepted prescriptions for improvement of business behaviour to the satisfaction of the "constituents" of business, i.e. the major stakeholders.

2. The rise of business ethics, corporate social responsibility & corporate governance

As mentioned in the outset of this paper, recently, i.e. in the last twenty years or so, attention has been drawn to the idea that businesses also have obligations to the wider communities. This has been manifested in the (now well-organised and articulated) *business ethics* movement, in the *corporate social responsibility* movement, and in the *corporate governance* movement. Within their contexts, concepts such as *stakeholders* and c*odes of practice* have been, and are being developed. These three movements can now be examined in the light of the literature that serves them, and in the light of the problems they seek to address in order to identify their similarities and differences.

2.1. Business ethics

Business ethics as a self-conscious (voluntary) way of looking at business has shown a major growth since the 1980s. In particular, in the USA in the 1970s, concerns were being voiced in relation to several developments:

- rising costs of litigation involving architects, accountants and lawyers[3]
- positive discrimination
- product safety (e.g. Ralph Nader's campaign on car safety)
- the "Watergate" scandal
- public sector strikes
- environmental issues (e.g. Environmental Protection Policy Act, 1969)
- "Whistleblower" issues[4]

[3] See for example the General Dynamics' case, which in the mid-80s created the first corporate ethics office in order to anticipate government investigations for pricing scams. Although till the late 1980s such initiatives were restricted in the defence industry which at that time faced high legal penalties, in 1991 the fact that federal judges in the USA were empowered to increase fines in cases involving companies that had loose or no rules in place to promote ethical behaviour, created similar incentives for all industries.

[4] This is an alternative (albeit controversial) way to encourage business that conforms to legal and ethical codes and expectations. Whistle blowers as employees who are unable to resolve a problem with his/her employer can report it as an unethical behaviour on the part of the employer. It is worth noting that in USA, laws usually do not allow employers to discriminate against or discipline whistleblowers. A well-known case brought about by whistleblowers is that of "Mitsubishi Motor Manufacturing of America Inc.", which was enforced by law to pay $34 million in sexual -harassment settlement (see Miller, 1998, June 12, *The Wall Street Journal*, p. B4). In Britain, the Public Interest Disclosure Act (1998) provides

- corporate bribery of foreign officials[5]
- transport disasters (e.g. Challenger spacecraft explosion in 1986)
- plant explosions (e.g. at Bhopal, India,1984[6]; Seveso, Italy,1976)

One of the consequences of such events as these - usually unintended - developments for businesses[7] was a demand for the establishment of formal codes of business practice. The Growth of corporate codes of ethics and of corporate ethics officers[8] was thus boosted partially by the fact that a corporation fined several million dollars could expect up to a 95% discount if had such a code and procedure in place (Hagar, 1991, Vogel, 1992). Today around 90 percent of Fortune 500 firms have a corporate code of practice and many companies provide to their employees guidelines for ethical decision making through corporate Web sites[9].

However, Business Ethics was late in catching on in Europe. Now, although there is great disparity between the North and the South, many European business schools[10] and most American, run business ethics programmes. Recently, a regular feature in the London Times was an assessment of profiled companies' "ethical expression", on a scale of 1 to 10. It is worth noting that there has been a European Business Ethics Network since 1987, and ethics conferences attended by representatives of "the great and the good".

Some companies (e.g. "The UK Co-operative Bank", "Beauty Without Cruelty", "The Body Shop") have made their ethical stance a major marketing tool. Some examples, presumably successfully used marketing tools, are[11]:

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some limited support for whistleblowers. A distinction is sometimes made between *internal whistle blowers* (held to be potentially beneficial for an organisation) and *external whistleblowers* (potentially harmful to the organisation). On this, see Dunfee (1990).

[5] In particular, in the USA companies have been bound by the Foreign Corrupt Practices Act since 1977. Now all OECD countries have joint an agreement to end bribery and corruption. A Transparency International Corruption (including bribery) Perceptions Index (CPI) has recently been established. CPI presents a list of "the ten least and the ten most corrupt countries". An index score of 10.0 means a totally free from corruption country whereas 0.0 means a fully corrupted country. In 2000 ninety countries were studied and the USA had a CPI of 7.8 and ranked 14th among the 90 countries studied. For more detail, see www.transparency.de/documents/cpi/2000/cpi2000.html.

[6] In 1984 an explosion at a Union Carbide plant in India killed at least 8,000 people.

[7] The literature provides a wide array of case studies whereby business operations led to a number of sanctions to businesses, i.e. monetary, criminal or other form of sanctions. See, for example, Jennings (1996) for an extensive elaboration of sanctions imposed by Indian courts to the Union Carbide operating in Bhopal.

[8] Although a decade ago or so corporate ethics officers were barely existed - in 1992 the Ethics Officer Association had twelve members – now they have become indispensable parts especially of large bureaucratic organizations. The Ethics Officer Association now has 650 members (*The Economist 22-28 April 2000).*

[9] See for example the case of the Canadian telecom company "Nortel" in the Web site: www.nortel.com/cool/ethics/decision7.html.

[10] For a database of Universities and Business Schools offering programmes that integrate into their traditional business curricula ethics content, see www.csreurope.org and www.copenhagencentre.org.

[11] The examples have been taken from a selection of perspectives from a 1995 Conference in London: The Ethical Customer.

- "Boots Healthcare International", which emphasises "safeguarding the ethical integrity of the organisation by developing a workforce that shares corporate values". According to the Boots' campaign "ethics" should be taken into consideration in every decision.
- "The Body Shop's" focus on "deciding how you are going to measure your ethical performance", figures highly its intentions.
- "The Co-operative Wholesale Society" actively seeks to identify its customers' concerns and the retail chain.
- "Out of This World" seeks to balance "ethical considerations with best value".

2.1.1. The nature of business ethics

There is no consensus as to the nature of business ethics. In fact the business-and-society literature shows a great disparity of opinions[12]. The opponents of business ethics assume that they have sufficient grounds for rejecting it. Some typical views are:

- "Ethics and business don't mix - business is a technical, not an ethical matter"[13]

- "It is naive to think that business will let ethics get in the way of making profits"[14]

- "There are no ethical companies, because they all break the ethical rules from time to time"[15].

It is useful at this stage to note that business is driven by values. Not all values are *ethical* in the sense of expressing duties, such as fairness, or honesty, or obligations to honour promises or contracts. Some values are *technical*, expressing skilled operation of business. Others are *prudential*, expressing a need to avoid unwanted repercussions or legal sanctions. Some advocates of business ethics as a discipline can be thought of as advocating "better" ways of encouraging or enforcing conventional standards. They may even propose new values or practices. These advocates are able, logically, to evaluate business operations in these terms. The standards themselves are capable of analysis in terms of the ethical principles of fairness, honesty, or promise keeping (for example). The standards and their application are capable of analysis in terms of consistency, clarity and much else. To do so is to do business ethics. Thus, everything business does is ethically relevant. Business can no more escape having an ethics than it can avoid having a structure or reputation.

[12] See for example Wood & Jones (1994).

[13] See for example Ullman (1985).

[14] See for example Milton Friedman (1962), who in his pioneering work *Capitalism and Freedom* (p.133) expresses a narrower (and sceptical) view of business ethics.

[15] See for example De George (1986), p. 3ff for a characterisation and rebuttal of this view.

It may be added further that[16] :
- "the case against monopoly is always an ethical case ('it distorts the market', and is an unfair practice in restraint of trade)". "Top business executives usually claim that 'integrity' (an ethical concept) is essential for business success" (and 'success' is a value concept, as is 'consumer sovereignty').
- "politicians enact laws governing business on the basis of their policies, which have a strong ethical ideology, so business responses must address the same language of good and proper practice".
- "That a company breaks the law, as many do, does not make it illegal. Similarly, a company that breaks an ethical rule does not make it wholly ethics-free or make ethics irrelevant".

Even criminal gangs have ethical codes. Conflicting ethical codes can co-exist in the same community, but some dominate others (Donaldson, 2001).

2.1.2. The Business Ethics Debate

Systematic handling of values of various kinds, attitudes to business ethics, ethics and morals and their differences are all issues raised within the context of the debate of business ethics.

The authors of this paper suggest that business ethics has two distinct meanings or interpretations which can be termed "*Ethics 1"* and "*Ethics 2*". These are not often explicit and perhaps not always recognised. "*Ethics 1*" concerns conventional ethics. A core question related to this is whether firms or individuals act according to the values that are dominant in the culture in which they live. If not, how can they be persuaded or forced to do so?

"*Ethics 2*" relates to "evaluative ethics". The following questions arise at this point: Are the dominant values defensible? On what grounds? In what ways could or should they be evolved? How, if at all, should they be enforced?

Further issues:

Some of the issues related to business ethics, law and regulation can be summarized within three different approaches[17], namely *relativism, subjectivism and objectivism*:

Relativism is the idea that ethics depend upon the time and place. The main perspective within the context of relativism is that what is obligatory in one country or time can be seen as immoral in another (e.g. bribery, free markets, monopoly, slavery; hire-and-fire working relationships).

Subjectivism is concerned with the idea that values are a matter of individual taste and preferences.

In ***Objectivism*** the predominant idea is that there are at least some values that are not dependent upon time and place or individual whims. These values include keeping promises, telling the truth, doing good and not harm, treating people as you would want them to treat you, just to mention a few.

The issues raised in the above-mentioned approaches have been the subjects of long-running debates for millennia. According to the authors of this paper, there is

[16] See Donaldson (2001), p. 629.

[17] De George (1986), Chapter 2; Donaldson (1989), p. xv, Chapter 4.

some truth in all the above, but they do not provide the whole truth. For example the fact (if it is a fact) that there may be groups of people somewhere in the world who think that lying is essential to prosperity is only a fact. However, this fact-finding does not prove they are right[18].

As against that, the observations still apply that *universal assent proves nothing true* (John Locke, 1689)[19] and furthermore that *values cannot logically be derived from facts*. (David Hume, 1739)[20].

Many of the issues listed above as ethical are covered by various laws, such as those relating to environmental protection, discrimination at work, safety, bribery or monopoly. So, Why is ethics needed as well? The answer may be that laws are derived from values such as those of governments in office, and, often, from the values of the various pressure and interest groups that governments consult (OECD, 2001/1).

A second reason may be that the law covers only some of the rule-making processes in business. Businesses have their own codes of practice, whether written down or not. Business federations and trade associations also increasingly have their codes. Some do so as a result of pressures from consumers, or to avoid legislation or the imposition of a regulatory authority[21].

A third reason may be that it would be too expensive to attempt to cover all aspects of behaviour by laws, and to police them[22].

The plurality of regulatory agencies, which exist, gives an idea of how states and institutions try to refine notions of business misconduct. Regulatory agencies serve as intermediate institutions between businesses and the law. Although they may be set up by law, and often have powers to fine companies, they provide for a great deal of input from the industry concerned. They can publish discussion papers, and usually have staff on secondment from the relevant industries. Britain, for example, has regulatory bodies for:
Electricity and Gas supply (OFWAT and OFGAS), Financial services (Financial Service Authority), Education (OFSTED), Rail operation, Water Supply (OFWAT), Telecommuications (OFTEL), and Co-operatives and friendly Societies (Registrar of Friendly Societies and Co-operatives) among others.

2.2. Corporate social responsibility

The Corporate Social Responsibility movement is not well articulated in Europe, especially in some Mediterranean countries[23]. For the promotion of the movement in 1995 the Corporate Social Responsibility Europe network was

[18] A careful discussion of the relevance of cultural differences and preferences to concepts of universal or objective values can be seen in Finnis (1980), Chapter 4: "Theoretical studies of universal values".

[19] Locke, John (1689; Ed. J. Yolton, 1974), Chapters II: "No Innate Principles" and XVI: "Degrees of assent and certainty".

[20] This proposition is sometimes referred to as "Hume's Fork" (Hume, 1739, Ed. Selby-Bigge, 1965).

[21] See for example Davis (1977).

[22] For example, many laws need to be supported by codes of practice, particularly in labour relations and financial services, and by judicial decisions that clarify or make law.

[23] For the situation of the Corporate Social Responsibility Movement, for example, in Greece, see Fafaliou (2001); Hellenic Network for Corporate Social Responsibility (2001).

launched aiming "to help companies to achieve profitability, sustainable growth and human progress by placing in the mainstream of business practice."

2.2.1. Definitional aspects

There are many definitional problems in relation to the Corporate Social Responsibility concept. It is often used in the modern literature as a summary concept whereby companies integrate social and environmental concerns in their operations and in their interaction with stakeholders on a voluntary basis[24]. According to this definition, for a company to be considered socially responsible means that its overall performance should be measured on a triple bottom line approach that is to say on a firm's combined contribution to economic prosperity, environment quality and social capital.

However, there is no general agreement concerning the concept of the "corporate social responsibility", therefore, the adoption of any universally applicable definition seems to be ineffective[25].

In fact, as already noted, at the theoretical level there are claims that either reduce business' social responsibility to activities that maximize profitability only for its shareholders**,** or extend responsibilities to cover the needs of the wider stakeholders of an enterprise that affect or are affected by business' operations. According to Prof. Milton Friedman (1962):

"…there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud" (p. 133).

Professor Friedman's views appear too narrow for many observers[26]. They are considered as mostly to reflect the traditional views on the role of business, whereby contribution to society is assumed through the provision of employment and the creation of wealth. Any involvement in social activities is thus claimed to create opportunity costs against profitable activity.

Diane Flannery (1996)[27] summarises the Corporate Social Responsibility Movement in the United States:

"In recent years a new generation of American corporations has evolved, both large and small, national and global, that firmly defines themselves as socially responsible businesses, with a double bottom line, whereby the companies' success is measured both by its financial and social performance. These corporations are successfully integrating traditional business functions with aggressive and far-reaching social goals. The companies are redefining the notion of corporate social responsibility and are raising important questions about the capacity of business to serve multiple roles in society. Years ago the number of American companies that would define themselves this way was relatively small. Recently, in the field of

[24] See for example European Commission's Green Paper (2001), p. 6.

[25] See for example CBI (2002). In this report it is quoted: "any attempt to develop a "one-size fits all" definition (of CSR) is therefore impractical". Furthermore, *The Dutch Social and Economic Council* (2001) defines the CSR concept as a sort of "container term" whose definition may change over time.

[26] See, for example, Kitson & Campbell (1996), p.p. 140-141.

[27] Diane Flannery in Ryan & Gasparski (2000), p. 47.

professional practice, there has been an explosion of interest in this issue. Business for Social Responsibility, a membership organisation that promotes responsible business practice, has grown tremendously. Today, the organisation has over 800 member companies that represent over 2.75 million employees and well over $ 400 billion in annual revenues: a major evolution from its humble grassroots beginnings."

According to the British Government's Department of Trade and Industry (24.05.02):

"An increasing number of companies of all sizes are finding that there are real business benefits from being socially responsible. Corporate Social Responsibility has become a core issue for many large businesses. About 80% of FTSE-100 companies now provide information about their environmental performance, social impact, or both.

These trends are not confined only to big business; a recent MORI survey of small and medium sized enterprises found that 61% were involved "a great deal" or "a fair amount" in the local community. This isn't happening by accident. There is a sound business case for social involvement. The UK is fortunate to have excellent support organisations helping companies become involved. And Government is assisting with relevant information on a wide range of issues, as well as through many other specific initiatives across the whole spectrum of the nation's biggest issues."

2.2.2. The Corporate Social Responsibility debate: background

The academic debate over social responsibility has been launched within neo-classical economics. The main issue addressed since then is whether business socially responsible activity pays returns for corporate financial performance. Up to now, there is no general consensus on the matter. In particular, *neoclassical* economists have claimed that there is no (positive) correlation between philanthropic action and profits. Relevant *classical* literature advocates that in the long term Corporate Social Responsibility has positive effects on business performance[28]. Furthermore, early in the 70s W. J. Baumol expressed the idea that Corporate Social Responsibility was a proper incentive to individual firms, other than that created by market mechanisms, for the provision of public goods.

Central to the Corporate Social Responsibility debate is measurement problems. Most of the empirical surveys undertaken in the field since the-mid 70s have been unable to establish a relation between Corporate Social Responsibility activity and corporate financial performance[29]. Due to this lack, the debate still goes on.

2.3. Corporate governance[30]

2.3.1. Some definitional issues

[28] See for example Steiner, (1980).

[29] See for example Starik and Carrol (1990), p.p. 1-15.

[30] For a comprehensive text on corporate governance, see Monks & Minow (2001, 2nd Edn.).

"Corporate" has to do with a body of persons especially one authorised to act as an individual. A company is a *legal person ("legal fiction")*. It can sue and be sued. But this raised a number of problems in relation to other branches of law (e.g. in terms of injuries to people, and the issues surrounding transport and other disasters, where attempts (unsuccessful, so far) have been made to sue companies and directors for "corporate manslaughter"[31].

The ordinary meaning of *"governance"* concerns the act, manner, fact or function of governing, sway or control (Concise Oxford Dictionary).

There are no technical uses for these terms. "Governance" is an old-fashioned word that has come to be applied, in public debate, to the behaviour of company boards. Not just any companies, but to large ones, e.g. Public Limited Companies (including very large "close"[32] companies, such as the Co-operative Bank). The large corporations and the small ones are all governed by law, and by their directors, who are answerable in law to their shareholders.

2.3.2. Corporate governance: background

Corporate governance is the manner of general management and control of a corporation, business or corporate body. Interest in corporate governance has a long history in various contexts. The expression came to be associated in the 1990s with concern over many ethical issues in business, and some business scandals, worldwide.

Patrick Maclagan (1998)[33] in his book *Management & Morality* has summarised the background to modern discussions of corporate governance:

"In the aftermath of successive business and public sector scandals ... practical concern with corporate governance has emerged in recent years as a distinct focus of attention. It has been closely associated with the Cadbury Committee's 1992 report into financial management and accountability in listed companies. But governance has a wider relevance than that, and a much longer history. In the mid-90s Lord Nolan's Committee on Standards in Public Life examined the governance of publicly-funded bodies (Nolan, 1995) and twenty years earlier, the Bullock Committee (1977) reported on the then equally topical issue of industrial democracy, recommending that employees and shareholders should have equal directorial representation on company boards and that these directors should then appoint additional, independent members. (These recommendations did not take effect due to opposition from the Confederation of British Industry and the fall of the Labour Government in 1979). The present Labour Government appears to have no plans to revive the issues".

Maclagan adds that these initiatives have shared a common concern for two things, the monitoring and control of managerial decisions and actions, and second, the representation of stakeholders' views.

Corporate governance, as Maclagan points out, is a much wider topic than it would appear from the topical reports that he mentions. A problem that has not been fully addressed in the literature is that of what makes a claim, e.g. a "say" in

[31] On the Zeebrugge ferry disaster, see Maclagan (1998), p.p.106-114; Boyd (1990), p.p. 139-153 in Enderle et al.

[32] i.e in this context, companies that are large, but whose share purchase is not open to the public.

[33] Maclagan, (1998), p. 151.

management decision-making or in corporate governance, a legitimate one? Should a stakeholder have a "say" just because the stakeholder has a financial interest in the behaviour of a business as an employee, shareholder, manager, supplier, customer or neighbour? Should the *interests* of the stakeholders be the only matters of significance? If so, then corporate governance would be largely a matter of calculating or negotiating benefits to the various stakeholders.

It is arguable that the various interested parties have other claims in addition to their financial interests. Directors of large or small businesses have long been held to be motivated by more than salaries and benefits, however substantial they have been come. The corporate governance debate, especially in Britain has emphasised the need for non-executive directors to decide the pay of directors. This has been regarded as particularly important in the light of many examples in which the contracts of executive directors have permitted major increases in pay, bonuses and share options despite poor performance. Shareholders, including the influential institutional investors, have objected. Several major investigations have produced major debates.[34]

But the "ownership versus control" debate[35] and many contributions to "the theory of the firm" have identified other motivations. The economist W.J. Baumol produced arguments in the late 1950s to the effect that directors were more concerned with maximising the size of the firm for prestige and control reasons[36]. More than a decade later, Cyert and March (1970) drew attention to the life-style of managers at work. These suggest that *expectations* of control, status and intrinsic rewards are prominent. All the above mentioned are matters on which managers are likely to appeal to *principles* and to claim a right to exercise efficient stewardship *in everyone's interests.*

Something similar can be said for other stakeholders. The "green lobby" seeks to influence governmental and corporate policies and decisions on the grounds of 'eco-friendliness' - on principles, rather than a claim for their own interests. Trade unions do seek financial gain, but like corporate directors, they have other values that wish to promote. They often cite principles, such as "the rate for the job", protection against unfair dismissal (ethical concepts) along with claims to be pursuing "legitimate interests" - also an ethical concept. A degree of control over certain decisions, and the right to defend members caught up in disciplinary matters are important to them. These are not merely matters of calculative interests. They are matters of principle, and the language of collective bargaining is replete with ethical and persuasive uses of language. Of course, not all parties accept the matters of principle that are important to the others. Where principles and interests are intermingled, the problems of legitimate governance and its acceptance are more problematic than when financial interests alone are concerned.

Corporate governance is thus a matter of control according to a mixture of principles and interests. The principles themselves may be agreed or imposed. Discussion of them may even be taboo in some corporations and organisations.

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[34] Reports on the role of non-executive directors have included those of Cadbury (1992), Greenbury (1995), Higgs (2003).

[35] For an extensive discussion on the thesis of the separation of ownership (i.e. shareholders) from control (i.e. directors and top-managers) see Florence (1961).

[36] Baumol (1959).

2.3.3. Corporate governance in the modern context

In joint stock companies and corporations voting is on a basis that is proportional to the amount of capital invested, by the holders of voting shares. The result is *oligarchy*, or rule by the few, or *hegemony*, which is the pre-eminence of one group among other groups. They are both similar in their effects[37].

Corporate governance is much more than the determination of directors' pay and conditions and procedures for election to the board. It involves the values and expectations of the stakeholders of the business (Donaldson, 1989; Maclagan, 1998; Monks & Minow, 2001).

The complexities of modern markets and technologies require managers who can provide a lead, and who need to be able to provide it on the basis of open and agreed values, agreed with members, and with other stakeholders, if the outpouring of corporate scandals is to be stemmed.

3. Assumptions of the three movements

All three movements discussed above have some significant assumptions in common. These are the *top-down assumption*, the *business ideology assumption* and the *monoculture business model assumption*.

3.1. The Top-down assumption

According to the authors of this paper, chief among the three assumptions identified in the three movements is that the approaches are "top-down" in nature. Codes of practice, codes of ethics and their operation and control are devised by or are taken on behalf of the leadership or directorates of powerful organisations and businesses. In some cases, *consumer panels*, and in other cases *collective bargaining* do provide for some input by others, but that input rarely, if ever, allows control in any degree to pass to stakeholders other than top management. To an extent, this result seem to be inevitable, as boards of directors or their equivalents are responsible at law for major aspects of business activities, but there appears to be both a need and scope for more effective checks and balances.

3.2. The business as ideology[38] assumption

"Ideology" refers to a body of ideas that is characteristic of a group, class or nation. Ideologies usually have untestable assumptions that adherents are expected to accept without question. They are usually impervious to critiques from outside. Business can no more escape having an ideology than it can escape having a reputation, but both can be sound or flawed, justified or not, narrow or broad. The ideology of business usually includes little concept of stakeholding, whereas pressure groups are predicated on the concept in some form or other, as can also be said for the pressures on governments to impose controls on business. Ideology can be *more* or *less* inclusive.

[37] For more information on the *Hegemony or Oligarchy Model*, see Donaldson (1999), p. 244.

[38] Business as ideology: a fuller discussion can be found in Donaldson (1999).

3.3. The monoculture assumption

The model of business as essentially driven by its owners (or, more usually by its directorate) appears to lead to a monoculture, in which other forms of ownership do not flourish. Globalisation and the tide of privatisation that has been running since the 1980s provide examples[39], as does the "flexible firm" that came to dominate the labour market in the 1980s.

These characteristics are rarely challenged in the literature, and the business ethics, corporate social responsibility and corporate governance movements and literature appear in general to accept the assumptions. As far as can be seen, these assumptions are not challenged by the three movements, but rather are assumed to be the inevitable conditions under which business operates, if they are considered at all. The dangers of monoculture are well known in agriculture and in international trade[40], but rarely considered in relation to business.

In relation to globalisation, the former chief economist at the World Bank, Joseph Stiglitz (24.06.2002) comments:

"Globalisation today is not working for the world's poor. It is not working for much of the environment. It is not working for the stability of the global economy. The transition from communism to a market economy has been so badly managed that, with the exception of China, Vietnam and a few Eastern European countries, poverty has soared as incomes have plummeted. To some, there is an easy answer: abandon globalisation. That is neither feasible nor desirable. Globalisation has brought huge benefits - East Asia's success was based on globalisation, especially on the opportunities for trade and increased access to markets and technology. Globalisation has brought better health as well as an active global civil society fighting for more democracy and greater social justice. The problem is not with globalisation but with how it has been managed".

Stiglitz claims that capital liberalisation in particular suits only some economies at particular stages, and that reforms are needed to make it work better. One point to note here is that single global policies are seen by some observers to be technical matters that need technical solutions to release the benefits that are supposed to be available to all[41]. Others see them as matters for international trade liberalisation, to be solved by international agreement, changes in law, and in the policies of, for example, the World Bank and other international institutions[42]. If either of these views is correct, individual firms and their actions on corporate social responsibility, ethical codes or governance styles are, at best of limited relevance.

It seems to us most likely that the problems of globalisation, and the business monoculture that it appears to promote, are typical mixtures of technical matters (including issues of economic organisation), prudential issues of safeguarding

[39] Concerning privatisation discussions, see for example Beesley & Littlechild (1994) in Bishop, M. J. Kay & C. Mayer (eds).

[40] The Irish potato famine in the nineteenth century, when more than a million people died as a result of the destruction by blight of the potato crop on which they were dependent (Japiske, 2002); destruction of cotton crops in North American states 1890-1920 (Quarterman, 2002) are examples.

[41] See for example the guidelines to multinationals in OECD (2001).

[42] The international conferences and the protest groups who lobby them provide examples.

successful systems to keep them viable, and ethical and value issues, mostly raised on behalf of disadvantaged groups or nations.

4. Some critical views

The three movements that promote business ethics, corporate social responsibility, and corporate governance respectively, have developed mainly in response to an apparent rise in corporate wrongdoing, or at least to a rise in the range and number of *causes célèbres* involving business.

Critical comments have included dissatisfaction with some general practices of multinational corporations (Klein, 2000), and with specific events and specific company policies (see for example the organisations Pax Christi & Amnesty International, 1998 in discussions with Shell, especially in relation to Shell Nigeria and human rights issues). These latter discussions appear to have improved understanding at least between the parties concerned.

Grosman & Morehouse (2000) note that the legal perpetuity accorded to corporations weakens the incentive to behave well, and contrast the permanency with the earlier, limited operating licences required up to the 1880s.

On the idea of business ethics, and of social responsibility of business, Milton Friedman (1970) famously claimed that, "The responsibility of business is to maximise profits within the law."

Many critics point to the cynicism with which people regard many codes of practice, on the grounds that they are merely statements of what businesses have been doing or intend to do, or on the grounds that they are honoured more in the breach than in the operation.[43]

5. Strengths and weaknesses

5.1. The strengths of the three movements

Despite the range, and continuing criticisms, general and specific of business behaviour in large corporations and institutions, some positive assessments can be made of the impact of the three movements:

- They have raised awareness of the issues and have sought ways of responding
- They have become organised into coherent arrangements for discussing the issues
- A large literature is developing
- Many organisations and institutions have issued "codes of practice" or "codes of ethics" that set out the norms of behaviour for businesses, professional associations, government departments, and delegated agencies.

That businesses have such a code does not necessarily mean that they will always honour it in spirit and letter, but there is at least a possibility that its

[43] For a detailed discussion of codes of practice, see Donaldson (1989), Chapter 6 and (1992), Chapter 4.

existence will exert a steady pressure to live up to the aspirations espoused in the codes, although the pressure may be very slow acting.

5.2. **The continuing problems and weaknesses include:** [44]

- pensions issues, such as mis-selling; lack of adequate coverage over time
- the Andersen/ENRON crisis (independence of auditors/checks and balances)
- continuing cases of insider dealing in stocks and shares
- executive pay/performance (apparent breaking of links)
- world trade rules, held to give unfair advantage to the rich countries
- skewed distribution of rewards and welfare within and between countries
- monopoly and market abuse
- escalating executive rewards for failure, falling trust in executives, etc.

The continuing problems thus appear to be, at least in part, consequences of the assumptions (conditions) of business operation that are shared by the three movements. To say this is not to deny the relevance of the themes that dominate the literature of business ethics, corporate social responsibility and corporate governance. Attempts to understand individual motivation and development, problems of "whistleblowers" and awareness, legislation, company ethics policies, the spread of knowledge and codes in these areas through symposia are all relevant. That the issues continue, in some cases with increased intensity, suggests that there are weaknesses in the way that the issues and their causes are currently conceived.

6. Some ways forward / recommendations

The following ideas represent some thoughts proposed as a step forward to avoid present business misbehaviour:

- *Pluralism in the form of business organisation*: This suggestion is based on the idea that the form of business organisation that has become dominant is not the only, or even the longest-serving form. While directors are, in principle, responsible for the running of business, the "managerial revolution" has long been noted. Not all directors have the same influence, and the corporate

[44] The list of problematic areas is drawn from reports in the daily press (see, for example, the article by Patience Wheatcroft *The Times*, London 13.06.02), annual reports of regulatory agencies, and from the general literatures relating to the three movements under discussion. The treatment in the literatures can be seen in the many texts and journals. Examples include: *International Journal of Value-Based Management; Journal of Business Ethics;* Kitson & Campbell (1996); Maclagan (1998); Donaldson (1989); Davis and Donaldson (1998); Ryan & Gasparski (2000); Casebooks include: Velasquez (1988); Donaldson (1992); Jennings (1996).

governance debate draws attention to the need to reform and / or reinforce some major functions. It is true that there is support for different forms of business organisation: local enterprise, small businesses, co-operatives, etc., it has long been noted that access to capital and innovations is not equal between corporations and other forms of enterprise.

- *Responsive codes of practice* could also be helpful in the sense that they could include identification of who the stakeholders are in each case, and what their "proper aspirations" are. The stakeholders could be included, along with their active participation, in codes and their operation. How what was termed above the "proper aspirations" can be determined is a major problem in its own right, but it will never be alleviated until it is more widely recognised.
- *Terms of debate:* Re-examination of the assumptions (conditions) of business operation to include the above would be timely. The technical superiority of "the market" over other forms of business conditions has been demonstrated. However, not everything that happens in "the market" is the result of impersonal market forces. It is a *managed* process. Its critics claim that it could be managed better, according to ethically sound principles. The impression remains that the criticisms (which are not all necessarily justified) have been diverted, rather than answered by the three movements, presumably as a result of the assumptions that have been taken for granted, or, perhaps, not noticed.

7. Conclusion and recommendations

Discussions of corporate social responsibility, corporate governance and business ethics have yielded many reports, and created many networks of organisations dedicated to improvement of thought and practice in the areas. There has been much survey research administered through questionnaires on how the top *managers* view many issues of the day, and on whether they think that codes of practice would be useful. There is much research on consumers' buying habits, and on whether consumers would buy proposed new products, including service products, and some is addressed to managers.

Despite all the above, public cynicism on the operation of codes of practice and of corporate governance is clearly visible[45]. In an imperfect world there is always a gap between the aspirations expressed in codes and their practical operation, but the gap could be reduced by detailed research into their formation, monitoring and reception by their intended beneficiaries. Many processes intervene between aspiration and reality. Some of the processes are internal to particular businesses; other are "fed in" by government, the law, pressure groups and much else. There appear to have been few studies of how these processes work. The following could help:

- Reconcile "agency theory"[46] with "stakeholder" theory. Agency theory has been developed to guide agents, such as accountants in making judgements about what is in the interests of clients. In particular, creating bodies that represent millions of consumers, employees or suppliers is fraught with

[45] For a review of discussions on the uses and limitations of codes, see Maclagan (1998), Chapter 11.

[46] Pratt & Zeckhauser (1984).

difficulties. Such bodies seem inevitably to develop norms, ideologies and control procedures that perpetuate the control arrangements of the organisation, often seeming to become divorced from the original intentions ("functional autonomy", informal systems, "regulatory capture" etc), or from the views of the "constituencies" that they represent.

- Develop "responsive codes of practice" that incorporate relevant parties in the preparation, monitoring and amendment of codes.
- The extent of positive and negative influences of individuals. Much effort has been expended in making individuals aware of the consequences of their actions or inactions. The propensity of individuals to participate or acquiesce in corporate wrongdoing, or to benefit from unfair advantage is sometime cited. It seems to us that there are no good reasons to believe that the propensity has become more widespread or more powerful over the last few millennia. But opportunities have clearly increased with the abolition of the old controls that governed business behaviour before the era of globalisation, before the ending of the gold exchange standard in the 1970s and before the digital revolution. On this basis, providing opportunities for executives to contemplate the ethical aspects of their actions can have only limited effects. But there are few grounds for asserting with confidence what the majority of players in the business field want, as suppliers, customers or employees, or as recipients of the consequences of business operation. More knowledge of expectations, and of how to assess their legitimacy would be of great value. It is possible that the expectations would turn out to be quite modest.

As Aristotle put it, "The conclusion of a moral argument is an action".

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