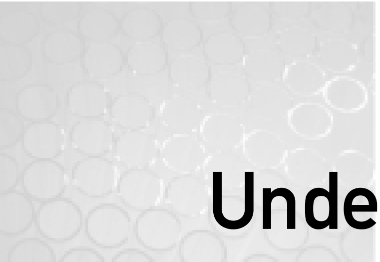

PART I

Understanding Business Ethics

1

Introducing Business Ethics

In this chapter we will:

- Provide a basic introduction and definition of business ethics;
- Outline the relationship between business ethics and the law;
- Distinguish between ethics, morality, and ethical theory;
- Discuss the importance of business ethics both at an academic level and in terms of practical management in organizations;
- Present globalization as an important, yet contested concept, which represents a critical new context for business ethics;
- Present the 'triple bottom line' of sustainability as a potential new goal for business ethics;
- Critically examine the argument that there is a distinctive European perspective on business ethics.

What is business ethics?

> 'A book on business ethics? Well that won't take long to read!'
>
> 'You're taking a course on business ethics? So what do you do in the afternoon?'
>
> 'Business ethics? I didn't think there were any!'

These are not very good jokes. Still, that does not seem to have stopped a lot of people from responding with such comments (and others like them) whenever students of business ethics start talking about what they are doing. And even if they are not particularly funny things to say, nor even very original, they do immediately raise an important problem with the subject of business ethics: some people cannot even believe that it exists!

Business ethics, it has been claimed, is an oxymoron (Collins 1994). By an oxymoron, we mean the bringing together of two apparently contradictory concepts, such as in 'a cheerful pessimist' or 'a deafening silence'. To say that business ethics is an oxymoron suggests that there are not, or cannot be, ethics in business: that business is in some way unethical (i.e. that business is inherently bad), or that it is, at best, amoral (i.e. outside of our normal moral considerations). For example, in the latter case, Albert Carr (1968) notoriously argued in his article 'Is business bluffing ethical' that the 'game' of business was not subject to the same moral standards as the rest of society, but should be regarded as analogous to a game of poker where deception and lying were perfectly permissible.

To some extent, it is not surprising that some people think this way. Various scandals concerning undesirable business activities, such as the despoiling of rivers with industrial pollutants, the exploitation of sweatshop workers, the payment of bribes to government officials, and the deception of unwary consumers, have highlighted the unethical way in which some firms have gone about their business. However, just because such malpractices take place, this does not mean that there are not some kinds of values or principles driving such decisions. After all, even what we might think of as 'bad' ethics is still ethics of a sort. And clearly it makes sense to try and understand why those decisions get made in the first place, and indeed to try and discover whether more acceptable business decisions and approaches can be developed.

Certainly, then, the revelations of corporate malpractice should not be interpreted to mean that thinking about ethics in business situations is entirely redundant. After all, as various writers have shown, many everyday business activities require the maintenance of basic ethical standards, such as honesty, trustworthiness, and co-operation (Collins 1994; Watson 1994). Business activity would be impossible if corporate directors always lied; if buyers and sellers never trusted each other; or if employees refused to ever help each other.

Similarly, it would be wrong to infer that scandals involving corporate wrongdoing mean that the *subject* of business ethics is in some way naive or idealistic. Indeed, on the contrary, it can be argued that the subject of business ethics primarily exists in order to provide us with some answers as to *why* certain decisions should be evaluated as ethical or unethical, or right or wrong. Without systematic study, how are we able to offer anything more than vague opinions or hunches about whether particular business activities are acceptable?

Whichever way one looks at it, then, there appears to be good reason to suggest that business ethics as a phenomenon, and as a subject, is not an oxymoron. Whilst there will inevitably be disagreements about what exactly constitutes 'ethical' business activity, it is possible at least to offer a fairly uncontroversial definition of the subject itself. So, in a nutshell, here is what we regard the subject of business ethics as:

> Business ethics is the study of business situations, activities, and decisions where issues of right and wrong are addressed.

It is worth stressing that by 'right' and 'wrong' we mean morally right and wrong as opposed to, for example, commercially, strategically, or financially right or wrong. Moreover, by 'business' ethics, we do not mean only commercial businesses, but also government organizations, pressure groups, not-for-profit businesses, charities, and other organizations. For example, questions about how to manage employees fairly, or what constitutes deception in advertising, are equally as important for organizations such as Greenpeace, the University of Stockholm, or the German Christian Democrat Party as they are for Shell, Volvo, or Deutsche Bank. However, given the high profile of ethical issues in relation to commercial businesses, it is on these types of businesses that we shall predominantly focus in this book.

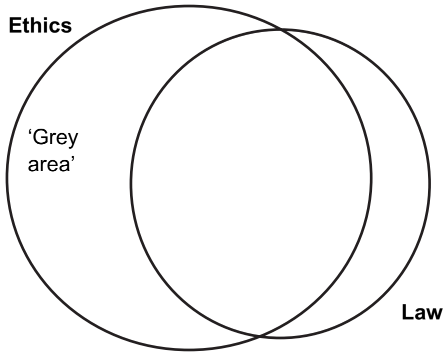

Figure 1.1. The relationship between ethics and the law

Business ethics and the law

Having defined business ethics in terms of issues of right and wrong, one might quite naturally question whether this is in any way distinct from the law. Surely the law is also about issues of right and wrong? This is true, and there is indeed considerable overlap between ethics and the law. In fact, the law is essentially an institutionalization or codification of ethics into specific social rules, regulations, and proscriptions. Nonetheless, the two are not equivalent. Perhaps the best the way of thinking about ethics and the law is in terms of two intersecting domains (see **Figure 1.1**). The law might be said to be a definition of the minimum acceptable standards of behaviour. However, many morally contestable issues, whether in business or elsewhere, are not explicitly covered by the law. For example, just as there is no law preventing you from being unfaithful to your girlfriend or boyfriend (although this is perceived by many to be unethical), so there is no law in many European countries preventing businesses from testing their products on animals, selling landmines to oppressive regimes, or preventing their employees from joining a union—again, issues which many feel very strongly about. Similarly, it is possible to think of issues that are covered by the law, but which are not really about ethics. For example, the law prescribes whether we should drive on the right or the left side of the road. Although this prevents chaos on the roads, the decision about which side we should drive is not an ethical decision as such.

In one sense, then, business ethics can be said to begin where the law ends. Business ethics is primarily concerned with those issues not covered by the law, or where there is no definite consensus on whether something is right or wrong. Discussion about the ethics of particular business practices may eventually *lead* to legislation once some kind of consensus is reached, but for most of the issues of interest to business ethics, the law typically does not currently provide us with guidance. For this reason, it is often said that business ethics is about the 'grey areas' of business, or where, as Treviño and Nelson (1999: 4) put it, 'values are in conflict'. **An Ethical Dilemma 1** presents one such situation that you might face where values are in conflict. Read through this and have a go at answering the questions at the end.

As we shall see many times over in this book, the problem of trying to make decisions in the grey areas of business ethics, or where values may be in conflict, means that many

Ethical Dilemma 1

No such thing as a free drink?

A good friend of yours who studies at the same university has been complaining for some time to you that he never has any money. He decides that he needs to go out and find a job, and after searching for a while, he is offered a job as a bartender in the student bar at your university. He gladly accepts and begins working three nights a week. You too are pleased, not only because it means that your friend will have more money, but also because the fact is that you often go to student bar anyway and so will continue to see him quite frequently despite him having the new job.

The extra money is indeed much welcomed by your friend (especially as he has less time to spend it now too), and initially he seems to enjoy the work. You are also rather pleased with developments since you notice that whenever you go up to the bar, your friend always serves you first regardless of how many people are waiting at the time.

After a while though, it becomes apparent that your friend is enjoying the job rather less. Whenever you see him, he always seems to have a new story of mild, but annoying treatment at the hands of the bar manager, such as getting the worst shifts, being repeatedly chosen to do the least popular jobs, and being reprimanded for the kind of minor blunders which go uncensured for the rest of the staff.

This goes on for a short while, and then one day, when you are in the bar having a drink with some of your other friends, your friend the bartender does something that you are not quite sure how to react to. When you go up to pay for a round of four beers for you and your other friends, he discreetly only charges you for one. Whilst you are slightly uncomfortable with this, you certainly don't want to get your friend into any kind of trouble by mentioning it. And when you tell your friends about it, they of course think it is very funny and congratulate you for the cheap round of drinks! In fact, when the next one of your friends goes up to pay for some drinks, he turns around and asks you to take his money, so that you can do the same trick for him. Although you tell him to get his own drinks, your friend the bartender continues to undercharge you whenever it is your turn to go to the bar. In fact this goes on for a number of visits, until you resolve to at least say something to him when no one else behind the bar is listening. However, when you do end up raising the subject he just laughs it off and says, 'Yeah, it's great isn't it? They'll never notice and you get a cheap night out. Besides, it's only what this place deserves after the way I've been treated.'

Questions

1 Who is wrong in this situation—your friend for undercharging you, you for accepting it, or neither of you?
2 Confronted by this situation, how would you handle it? Would you ask your friend to stop undercharging you? If so, what if he refused?
3 To what extent do you think that being deliberately undercharged is different from other forms of preferential treatment, such as serving you in front of other waiting customers?
4 Does the fact that your friend feels aggrieved at the treatment he receives from his boss condone his behaviour at all? Does it help to explain either his or your actions?

of the questions posed are *equivocal*. There simply may not be a definitive 'right' answer to many business ethics problems. And as is the case with issues such as the animal testing of products, executive pay, persuasive sales techniques, or child labour, business ethics problems also tend to be very controversial and open to widely different points of view. In this sense business ethics is not like subjects such as accounting, finance, engineering, or business law where you are supposed to learn specific procedures and facts in order to make objectively correct decisions. Studying business ethics should help you to make *better* decisions, but this is not the same as making unequivocally *right* decisions.

Defining morality, ethics, and ethical theory

Some of the controversy regarding business ethics is no doubt due to different understandings of what constitutes morality or ethics in the first place. Before we continue, then, it is important for us to sort out some of the terminology we are using.

In common usage, the terms 'ethics' and 'morality' are often used interchangeably. In many ways, it is probably true to say that this does not pose many real problems for most of us in terms of communicating and understanding things about business ethics. However, in order to clarify certain arguments, many academic writers have proposed clear differences between the two terms (e.g. Crane 2000; M. Parker 1998). Unfortunately though, different writers have sometimes offered somewhat different distinctions, thereby serving more to confuse us than clarify our understanding.[1] Nonetheless, we do agree that there are certain advantages in making a distinction between 'ethics' and 'morality', and following what we feel is the most common and useful way of distinguishing them, we offer this distinction:

> Morality is concerned with the norms, values, and beliefs embedded in social processes which define right and wrong for an individual or a community.
>
> Ethics is concerned with the study of morality and the application of reason to elucidate specific rules and principles that determine right and wrong for any given situation. These rules and principles are called ethical theories.

In this way of thinking, then, morality precedes ethics, which in turn precedes ethical theory (see **Figure 1.2**). All individuals and communities have morality, a basic sense of right or wrong in relation to particular activities. Ethics represents an attempt to systematize and rationalize morality into generalized normative rules that supposedly offer a solution to all situations of moral uncertainty.[2] The outcomes of the codification of these

[1] For example, Kelemen and Peltonen (2001) analyse the different usage of the concepts of 'ethics' and 'morality' in the writings of Michel Foucault and Zygmunt Bauman, two leading authors in the area of postmodern business ethics. They reveal strikingly different distinctions that in fact virtually provide a direct contradiction to one another.

[2] The emergence of the formal study of ethics is therefore aligned by several authors such as Bauman (1993), Johnson and Smith (1999), and M. Parker (1998) with the modernist Enlightenment project, and the idea that moral uncertainty can be 'solved' with recourse to human rationality and abstract reasoning. As we shall show in Chapters 3 and 4, this has come under increasing attack from a number of quarters including feminists and postmodernists.

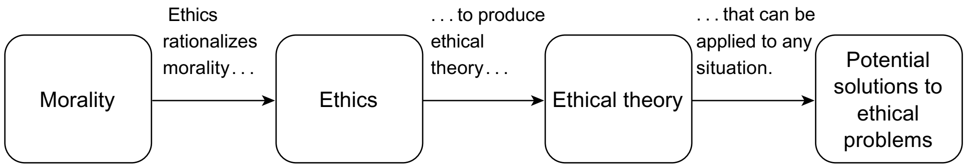

Figure 1.2. The relationship between morality, ethics, and ethical theory

rules are ethical theories, such as rights theory or justice theory. The importance of this distinction will hopefully therefore become clearer, and will certainly become more pertinent, as we start to examine these and other theories (in Chapter 3), as well as assessing how they feed into ethical decision-making in business (in Chapter 4). Indeed, contributing to the enhancement of ethical decision-making is one of the primary aims of this book, and of the subject of business ethics more generally. In the next section, we shall briefly review this and some of the other reasons why studying business ethics is becoming increasingly important today in Europe and beyond.

Why is business ethics important?

Business ethics is currently a very prominent business topic, and the debates and dilemmas surrounding business ethics have tended to attract an enormous amount of attention from various quarters. For a start, consumers and pressure groups appear to be increasingly demanding that firms should seek out more ethical and ecologically sounder ways of doing business. The media also constantly seems to be keeping the spotlight on corporate abuses and malpractices. And even firms themselves appear to be increasingly recognizing that being ethical (or at the very least being seen to be ethical) may actually be good for business. In recent years, we have even seen protesters of all kinds in the streets of Seattle, Stockholm, Genoa, London, and elsewhere actually challenging the very nature of capitalism and questioning the impact of global corporations on society.

There are therefore many reasons why business ethics might be regarded as an increasingly important area of study, whether for students interested in evaluating business activities, or for managers seeking to improve their decision-making skills. Here then are the main reasons why we think that a strong understanding of business ethics is important:

1. The power and influence of business in society is greater than ever before. Evidence suggests that many members of the public are uneasy with such developments (Bernstein 2000). Business ethics helps us to understand why this is happening, what its implications might be, and how we might address this situation.
2. Business malpractices have the potential to inflict enormous harm on individuals, on communities, and on the environment. Through helping us to understand more about the causes and consequences of these malpractices, business ethics seeks, as

the founding editor of the *Journal of Business Ethics* has suggested (Michalos 1988), 'to improve the human condition'.[3]

3. The demands being placed on business to be ethical by its various stakeholders are constantly becoming more complex and more challenging. Business ethics provides the means to appreciate and understand these challenges more clearly, in order that firms can meet these ethical expectations more effectively.
4. Few business people in Europe and elsewhere have received formal business ethics education or training. Business ethics can help to improve ethical decision-making by providing managers with the appropriate knowledge and tools that allow them to correctly identify, diagnose, analyse, and provide solutions to the ethical problems and dilemmas they are confronted with.
5. Ethical infractions continue to occur in business. Ferrell et al. (2000: 13), for example, cite a survey revealing that 48 per cent of US employees claimed to have done something unethical or illegal in the previous year. Business ethics provides us with a way of looking at the reasons behind this, and the ways in which such problems might be dealt with by managers, regulators, and others interested in improving business ethics.
6. Business ethics can provide us with the ability to assess the benefits and problems associated with different ways of managing ethics in organizations.
7. Finally, business ethics is also extremely interesting in that it supplies us with knowledge that transcends the traditional framework of business studies and confronts us with some of the most important questions faced by society. The subject can therefore be richly rewarding to study because it provides us with knowledge and skills which are not simply helpful for doing business, but rather, by helping us to understand modern societies in a more systematic way, can advance our ability to address life situations far beyond the classroom or the office desk.

This is not to say there are not problems with the subject of business ethics, and these have prompted writers such as Andrew Stark (1994) to pose the question 'what's the matter with business ethics?' and Tom Sorrell (1998) to pronounce on the 'strange state of business ethics'. After all, despite many years of business ethics being researched and taught in colleges and universities, ethics problems persist and the public remains sceptical of the ethics of business. However, in the main these concerns are focused on how theories of business ethics have been developed and applied, rather than questioning the importance of business ethics as a subject *per se*.

Indeed, there does seem to be a growing consensus regarding the importance of business ethics, whether by students, by academics, by governments, by consumers, or of course by businesses. There are now modules in business ethics being run in universities across Europe; there has been an outpouring of journal and newspaper articles on the subject; and one recent review reported finding over 20,000 web pages and nearly 1,200

[3] For a summary and assessment of the contribution to this endeavour of the first eighteen volumes of the *Journal of Business Ethics* (i.e. 1982–99), see Collins (2000).

books on business ethics (Kelemen and Peltonen 2001). Similarly, the last few years have witnessed significant growth in what might be regarded as the business ethics 'industry', i.e. corporate ethics officers, independent ethics consultants, ethical investment trusts, and activities associated with ethics auditing, monitoring, and reporting (as have been recently developed by the likes of KPMG, McKinsey, PriceWaterhouseCoopers, and others).

What is clear then is that business ethics has not only been recognized as increasingly important, but has also undergone rapid changes and developments during the past decade or so. In this book, we are concerned with addressing what we see as the two most fundamental challenges facing business ethics in Europe at this time: the new context provided by the phenomenon of globalization; and the new goals represented by the concept of sustainability.

Globalization: a new context for business ethics?

Globalization has become one of the most prominent buzzwords of recent times. Whether in newspaper articles, politicians' speeches, or business leaders' press conferences, the 'G-word' is frequently identified as one of the most important issues in contemporary society. In the business community in particular there has been considerable enthusiasm about globalization. For instance, the chairman of Goldman Sachs has talked of 'the gospel of globalization' and has praised the increasingly interconnected world economy and its benefits for economic growth, global welfare, democracy, and world peace (Paulson 2001).

But globalization is not unanimously viewed as a positive development. Similar to the anti-nuclear power movement back in the 1970s, we have witnessed the rise of a new worldwide culture of 'anti-globalization' campaigners. Like a consecutive global festival, they turn up at every meeting of the WTO, the IMF, the World Bank, or the summits of G8 or EU leaders and articulate their profound criticism and often violent protest against the 'global world order', 'global capitalism', the 'dictate of the multinationals', and so on. Riots in Seattle, Davos, Prague, and Genoa have made the public aware of the fact that globalization is a highly contested and controversial topic on the public agenda.

In the context of business ethics, this controversy over globalization plays a crucial role. After all, corporations—most notably multinational corporations (MNCs)—are at the centre of the public's criticism on globalization. They are accused of exploiting workers in less developed countries (LDCs), destroying the environment, and, by abusing their economic power, engaging less developed countries in a so-called 'race to the bottom'. This term describes a process whereby MNCs pitch LDCs against each other by allocating their investment to those countries which offer them the most favourable conditions in terms of low tax rates, low level of environmental regulation, and restricted workers' rights. However true these accusations are in practice, there is no doubt that globalization is the most current and demanding arena in which corporations have to define and legitimize the 'right or wrong' of their behaviour.

What is globalization?

Globalization is not only a very controversial topic in the public debate, it is also a very contested term in academic discourse.[4] Apart from the fact that—mirroring the public debate—the camp seems to be divided into supporters and critics, there is growing concern about whether globalization is a fact at all. So, for example, some argue that there is nothing like a 'global' economy, because roughly 90 per cent of world trade only takes part between the three great economic blocks of the EU, North America, and Japan, leaving out all other major parts of the globe (Rugman 2000). Obviously, we have to examine the 'globalization' buzzword more carefully and to develop a more precise definition if we want to understand its character and its implications for business ethics.

What globalization is not

Using the work of Jan Aart Scholte (2000), we will try to bring some order into the chaos of 'global blurb' by examining various definitions which are often used, but which do not really identify the central and new character of globalization. These redundant concepts of globalization, which are especially popular among authors in business studies, are characterized by Scholte (2000: 44–6) as follows:

- Globalization as *internationalization*: many see the recent increase in cross-border transactions as the new defining element of globalization. However, this has not been a new development. This phenomenon was already well established in ancient history, and even at the end of the nineteenth century, the percentage of cross-border transactions worldwide was not considerably lower than at the end of the twentieth century (Moore and Lewis 1999).
- Globalization as *liberalization*: the recent globalization debate coincides with an increase in trade liberalization and various kinds of deregulation. Nevertheless, this phenomenon is much older and does not justify the invention and use of the term 'globalization' to describe it.
- Globalization as *universalization*: an aspect of globalization is the fact that it leads to an increasing global spread of products, lifestyles, and ideas. However, this is not a new phenomenon either: throughout the last 2,000 years, for example, world religions such as Christianity or Islam have spread over large parts of the globe with the same unifying power and assimilating effects on people's lives. Therefore a new term such as 'globalization' is not needed to describe this old phenomenon.
- Globalization as *westernization*: much of the criticism on globalization focuses on the fact that it results in the export of western culture to other, culturally different world regions. Again, this is not a new phenomenon at all: the era of colonization in the nineteenth century resulted in the export of various facets of western culture to the colonized countries, evidenced for example by the British legacy in countries such as India, the Spanish legacy in South America, and the French legacy in Africa.

[4] There is a wide range of literature addressing globalization and its meaning. Good introductions are provided by Beck (1999), Giddens (1999), and Held and McGrew (2000).

What globalization is

All of these views of globalization describe some of the more visible features of globalization. They are certainly important issues, but as Scholte (2000) shows, they do not characterize the significantly *new* aspects of globalization. If we want to get a grasp on the decisive features of globalization, he suggests we can start by looking at the way social connections traditionally took place. These connections, be it personal relations to family members or friends, or economic relations such as shopping or working, took place within a certain territory. People had their family and friends in a certain village, they had their work and business relations within a certain town or even country. Social interaction traditionally needed a certain geographical space to take place. However, this link between social connections and a certain territory has been continuously weakened, mainly by two developments during the last few decades.

The first development is *technological* in nature. Modern communication technology, from the telephone, to radio and television, and now the internet, opens up the possibility of connecting and interacting with people despite the fact that there are large geographical distances between them. Furthermore, the rapid development of global transportation technologies allows people to easily connect with other people all over the globe. While Marco Polo had to travel many months to finally arrive in China, people today can step on a plane and, after a passable meal and a short sleep, arrive some time later on the other side of the globe. Territorial distances play a less and less important role today. The people we do business with, or who are our friends, no longer necessarily have to be in the same place as we are.

The second development is *political* in nature. Territorial borders have been the main obstacles to worldwide connections between people. Only fifteen years ago it was still largely impossible to enter the countries in the eastern bloc without lengthy visa procedures, and even then, interactions between people from the two sides were very limited and restricted. With the fall of the Iron Curtain, but also with the huge liberalization efforts for instance within the EU, national borders have been eroded and, in many cases, have even been abolished. In Europe you can drive from Lapland to Sicily without necessarily stopping at a single national border.

These two developments mainly account for the massive proliferation and spread in supraterritorial connections. These connections may not always necessarily have a global spread in the literal sense of worldwide spread. The new thing though about these connections is that they no longer need a geographical territory to take place and they are not restricted by territorial distances and borders any more. Scholte (2000: 46–61) thus characterizes globalization as *deterritorialization*, suggesting that we can define globalization as follows:

> Globalization is the progressive eroding of the relevance of territorial bases for social, economic, and political activities, processes, and relations.

Let us have a look at some examples of globalization according to this definition:

- Due to the modern communication infrastructure, many of us actually witnessed the crumbling of the World Trade Centre towers on 11 September 2001 live on TV—regardless of where we were located at that time. This event was global not in the sense that it actually happened all over the world, but in the sense that billions of people saw it, and to some extent took part in it, regardless of whether they were standing in Manhattan, Manchester, or Manila.

- We can potentially drink the same Heineken beer, drive the same model of Toyota car, or buy the same expensive Rolex watch almost wherever we are in the world—we do not have to be in Amsterdam, Tokyo, or Geneva. Certain global products are available all over the world and going for a 'Chinese', 'Mexican', or 'French' meal indicates certain tastes and styles rather than a trip to a certain geographical territory.
- We no longer tend to worry about where our bank stores our money and if their 'safes' really deserve that name. We can quite easily have a credit card which allows us to withdraw money all over the world, we can pay our bills at home in Europe via internet banking while sitting in an internet café in India, or even order our Swiss private banking broker to buy an option on halved pigs at the Chicago exchange without even moving our feet from the sofa.

Global communications, global products, and global financial systems and capital markets are only the most striking examples of deterritorialization in the world economy. There are many other areas where globalization in this sense is a significant social, economic, and political process. As we shall now see, globalization also has significant implications for business ethics.

The relevance of globalization for business ethics

Globalization as defined in terms of the deterritorialization of economic activities is particularly relevant for business ethics, and this is evident in three main areas—culture, law, and accountability.

Cultural issues

As business becomes less fixed territorially, so corporations increasingly engage in overseas markets, suddenly finding themselves confronted with new and diverse, sometimes even contradicting ethical demands. Moral values which were taken for granted in the home market may get questioned as soon as corporations enter foreign markets (Donaldson 1996). For example, attitudes to racial and gender diversity in Europe may differ significantly from those in Middle Eastern countries. Similarly, Chinese people might regard it as more unethical to sack employees in times of economic downturns than would be typical in Europe. Again, whilst Europeans tend to regard child labour as strictly unethical, some Asian countries might have a more moderate approach (for further examples see Kumar and Steinmann 1998). **Ethics in Action 1.1** discusses the issues faced by the British clothing retailer French Connection in using its provocative advertising campaign overseas.

> ■ **Think theory**
>
> Think about the idea of globalization as 'deterritorialization'. What aspects of deterritorialization would you say are evident in the example of FCUK?

Ethics in Action 1.1

FCUK goes international

The UK fashion retail chain French Connection experienced considerable commercial success in the highly competitive UK high street during the late 1990s and early 2000s. As founder and CEO Steven Matts has claimed, one of the keys to its success in the UK has lain in the firm's aggressive advertising campaign, establishing the acronym *fcuk* and its connotative meaning at the core of their slogans. The *fcuk* slogan appears to appeal to French Connection's target audience of young consumers and the repeated criticism of their advertising campaigns by the Advertising Standards Authority (ASA) in the UK has only boosted the 'naughty' image of the brand. In the course of 2001, French Connection not only expanded its product range into cosmetics and drinks, but also made a further move towards expanding its international business.

One of the main target markets for French Connection has been the USA. In their effort to establish a global brand, the company has used the same marketing campaigns used in the UK—and faced considerable problems. Even in more liberal places such as New York, San Francisco, or Los Angeles, public outrage was stirred up by the *fcuk* campaigns. So, for instance, some of New York's taxi drivers refused to have the advertisement on their cabs. Earlier on, the company had met similar reactions in Singapore, where public outcry caused the local bus company to ask the company to change their ads showing the letters *fcuk* in black and white on their buses. In the USA, the controversy was even boosted by the fact that many Americans use the word 'fcuk' in place of the direct expletive 'fuck' on the internet in order to avoid filters.

Steve Rabosky, the chief creative officer of the advertising firm Saatchi & Saatchi in Los Angeles, said of the issue: 'The problem over here [in the USA] is it is going to get a lot of censorship. This society is not as open as the UK. If *fcuk* goes outside New York and San Francisco it could run into problems. Things are very politically correct over here right now. The entertainment industry is being pressured to cut back on violence and nudity, and advertising is part of that.'

The risks of this provocative campaign are also boosted by the different legal frameworks in the UK and the USA. Whereas French Connection only faces one central authority, the ASA, in the UK, censorship of advertising in the USA is the responsibility of local authorities. Although in the initial stages of the campaign they had no conflicts with such bodies in New York or San Francisco, expanding their business to Salt Lake City or Atlanta could provoke different reactions.

The *fcuk* case shows that moral values and cultural norms differ significantly across the globe and that corporations have to be very careful in toning their communications to the local specifics. In the event, French Connection decided to run their provocative TV campaigns only on selected US stations such as MTV, which directly focuses on their target audience of young consumers.

SOURCES

BBC (2000). 'Fcuk slogan "not funny" '. BBC News On-line, 5 July, **http://news.bbc.co.uk**.
Benady, D. (2001). 'Fcuk America'. *Marketing Week*, 22 Mar.: 26–9.
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The reason why there is potential for such problems is that whilst globalization results in the deterritorialization of some processes and activities, in many cases there is still a close connection between the local culture, including moral values, and a certain geographical region. For example, Europeans largely disapprove of capital punishment, whilst many Americans appear to regard it as morally acceptable. Women can freely sunbathe topless on most European beaches, yet in some states of America they can get fined for doing so—and in Pakistan would be expected to cover up much more. This is one of the contradictions of globalization: on the one hand, globalization makes regional difference less important since it brings regions together and encourages a more uniform 'global culture'. On the other hand, in eroding the divisions of geographical distances, globalization reveals economic, political, and cultural differences and confronts people with them. This dialectical effect has been a growing subject for research in recent years (see Child 2000; Sorge 2000).

Legal issues

A second aspect is closely linked to our previous of servation about the relation between ethics and law. The more economic transactions lose their connection to a certain regional territory, the more they escape the control of the respective national governments. The power of a government has traditionally been confined to a certain territory, for example: French laws are only binding on French territory, UK laws on UK territory, and so on. As soon as a company leaves its home territory and moves part of its production chain to, for example, a third world country, the legal framework becomes very different. Consequently, managers can no longer simply rely on the legal framework when deciding on the right or wrong of certain business practices. If, as we said earlier (7–12), business ethics largely begins where the law ends, then deterritorialization increases the demand for business ethics because deterritorialized economic activities are beyond the control of national (territorial) governments. For example, global financial markets are beyond the control of any national government, and the constant struggle of governments against issues such as child pornography on the internet shows the enormous difficulties in enforcing national laws in deterritorialized spaces.

Accountability issues

Taking a closer look at global activities, one can easily identify corporations as the dominant actors on the global stage: MNCs own the mass media which determines much of our information and entertainment intake, they supply global products, they pay people's salaries, and they pay (directly or indirectly) much of the taxes that keep governments running. Furthermore, one could argue that MNCs are economically more powerful than many governments. For example, the GDP of Denmark is about the same as the turnover of General Motors. However, whereas the Danish government has to be accountable to the Danish people and must face elections on a regular basis, the managers of General Motors are formally accountable only to the relatively small group of people who own shares in the company. The communities in the USA, Brazil, or Germany that depend directly on General Motors' investment decisions however have next to no influence on the company and, unlike a regional or national government, General Motors at least in principle is not accountable to these constituencies.

Stakeholders	Impacts of globalization
Shareholders	Lack of regulation of global capital markets, leading to financial risks and instability
Employees	Corporations outsource production to LDCs in order to reduce costs in global marketplace; raised potential for exploitation of employees with different cultural backgrounds and divergent moral standards
Consumers	Global products face protests about cultural imperialism and westernization. Vulnerable consumers in LDCs face possibility of exploitation by MNCs
Suppliers and competitors	Suppliers in LDCs face regulation from MNCs through supply chain management. Small-scale indigenous competitors exposed to powerful global players
Civil society (pressure groups, NGOs, local communities)	Global business activities bring the company in direct interaction with local communities with possibility for erosion of traditional community life; globally active pressure groups emerge with aim to 'police' the corporation in countries where governments are weak and tolerant
Government and regulation	Globalization weakens governments and increases the corporate responsibility for jobs, welfare, maintenance of ethical standards, etc.

Figure 1.3. Examples of the impact of globalization on different stakeholder groups

What this means is that the more economic activities get deterritorialized, the less governments can control them, and the less they are open to democratic control of the affected people. Consequently, the call for direct (democratic) accountability of MNCs has become increasingly louder during the last few years, evidenced for example by the aforementioned anti-globalization protests. Put simply, globalization leads to a growing demand for *corporate accountability*. We shall examine this argument fully in the next chapter, but clearly it is exactly here where business ethics is increasingly in demand since it offers the potential for corporations to examine and respond to the claims made on them by various stakeholders. Indeed, globalization can be seen to affect *all* stakeholders of the corporation, as we shall discuss in Part II of the book. Some examples of these impacts are presented in **Figure 1.3**.

Sustainability: a new goal for business ethics?

At the same time that these new challenges raised by the context of globalization have been emerging, considerable interest has also been directed towards the development of new ways of addressing the diverse impacts of business in society. Many of these impacts are far-reaching and profound. To mention just a few, one only needs to think of impacts such as:

- The environmental pollution caused by the production, transportation, and use of products such as cars, refrigerators, or newspapers;
- The ever-increasing problems of waste disposal and management as a result of excessive product packaging and the dominance of 'throwaway culture';

Company	Sustainability statement	Source
BP	'We are committed to respond to the challenges posed by the objective of sustainable development. In our view sustainable development is a long term strategic issue that will involve business in considerations beyond its normal responsibilities.'	*Environmental and Social Review*, *2000.*
Carlsberg Breweries	'Carlsberg Breweries seeks to meet the needs of its consumers, customers, and employees in an environmentally sound and sustainable manner.'	*Environmental Report*, 1998–2000.
Nokia	'Global industries are moving towards operating by social and ethical principles, such as environmentally sustainable practices. We wholeheartedly support this development and also participate actively in the global initiatives that support it.'	**www.nokia.com.**
Shell	'Shell companies are committed to contribute to sustainable development.'	*People, Planets and Profits: The Shell Report*, 2000.
Volvo	'Volvo's environmental programmes shall be characterised by a holistic view, continuous improvement, technical development and resource efficiency. Volvo shall, by these means, gain competitive advantage and contribute to a sustainable development.'	*Environmental Report*, 2000.

Figure 1.4. Corporate commitments to sustainability

- The devastating consequences for individuals and communities as a result of plant closures and 'downsizing' as experienced throughout Europe, from south Wales in the UK to the Lorraine in France and the Ruhr in Germany;
- The erosion of local cultures and environments due to the influx of mass tourism in places as diverse as Mallorcan fishing villages, Swiss alpine communities, or ancient Roman monuments.

Faced with such problems (and many more besides), it has been widely suggested that the goals and consequences of business require radical rethinking. Following the Rio Earth Summit of 1992, one concept in particular appears to have been widely promoted (though not universally accepted) as the essential new conceptual frame for assessing not only business activities specifically, but industrial and social development more generally. That concept is *sustainability*.

Sustainability has become an increasingly common term in the rhetoric surrounding business ethics, and has been widely used by corporations, governments, consultants, pressure groups, and academics alike. **Figure 1.4** provides some examples of sustainability being used in the corporate reports and other business communications of some major European firms.

Despite this widespread use, sustainability is a term that has been utilized and interpreted in substantially different ways (Dobson 1996). Probably the most common usage of sustainability, however, is in relation to *sustainable development*, which is typically defined as follows:

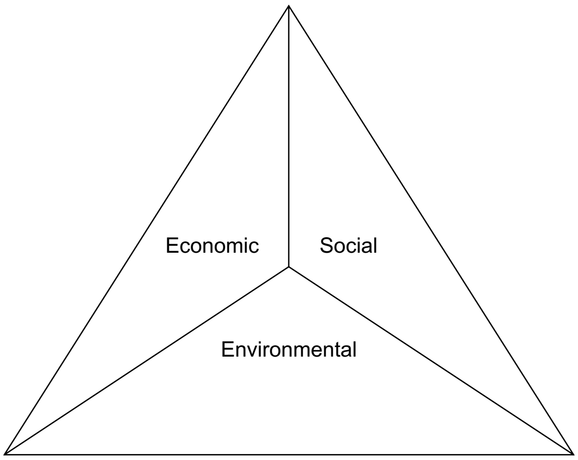

Figure 1.5. The three components of sustainability

> Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.
>
> (World Commission on Environment and Development 1987)

This, however, is only the core idea of an elusive and widely contested concept—and one that has also been subject to a vast array of different conceptualizations and definitions (Gladwin et al. 1995). So whilst we would caution against an unreserved acceptance of any particular interpretation, at a very basic level, sustainability appears to be primarily about system maintenance, as in ensuring that our actions do not impact upon the system —for example the earth or the biosphere—in such a way that its long-term viability is threatened. By focusing sustainable development on the potential for future generations to satisfy their needs, sustainability also surfaces considerations of *intergenerational equity*, i.e. equality between one generation and another.

With its roots in environmental management and analysis, for a long time sustainability as a concept was largely synonymous with environmental sustainability. More recently, though, the concept of sustainability has been broadened to include not only environmental considerations, but also economic and social considerations (Elkington 1999). This is shown in **Figure 1.5**.

This extension of the sustainability concept arose primarily because it is not only impractical, but even sometimes impossible, to address the sustainability of the natural environment without also considering the social and economic aspects of relevant communities and their activities. For example, whilst environmentalists have opposed road-building programmes on account of the detrimental impact of such schemes on the environment, others have pointed to the benefits for local communities of lower congestion in their towns and extra jobs for their citizens. **Ethics in Action 1.2** looks at this problem of trade-offs between environmental, social, and economic criteria as faced by the UK airlines British Airways and Virgin Atlantic in the wake of their plans to expand airline capacity in the UK. Another argument for this extension is the consideration that

Ethics in Action 1.2

Freedom to Fly?

After the much publicized 'dirty tricks' allegations of the 1990s, where British Airways were convicted of unscrupulous activities in their competitive battle against bitter rivals Virgin Atlantic, many people would not have expected the two airlines to enter into a friendly partnership. However, on 14 January 2001, that is exactly what happened when Sir Richard Branson, the charismatic chairman of Virgin, and Rod Eddington, the chief executive of BA, joined forces with airports, business groups, and trade unions to launch the Freedom to Fly campaign in the UK.

A broad-based coalition of interest groups, the Freedom to Fly launch represented a major new move to campaign for more air capacity in the UK. With over 180 million passengers using UK airports in 2000, government forecasts were predicting a doubling of demand in the next twenty years. The coalition thus sought to avert a crisis in capacity over the next few decades by campaigning for major investment into building new terminals and runways. At the launch, coalition members argued that without expansion, the travelling public would face restrictions in their freedom to fly as well as have to put up with more delays, higher prices, and less choice. Jobs, business, tourism, and the economy would also be likely to suffer, claimed the coalition.

While the move was welcomed by business, environmental groups and anti-noise campaigners opposed the initiative. Expansion in air travel ordinarily translates into substantial increases in the emission of the greenhouse gases that lead to climate change. Similarly, more communities tend to be affected, and affected to a greater degree, by the additional noise pollution resulting from extra air traffic. As the chairman of one anti-noise campaigning group said in response to the launch: 'What this new lobby group fails to address is the effect that an expansion of aviation will have on the people living under the flight paths to airports and the damage aviation is doing to our wider environment. Our members are more concerned about the freedom to sleep than the freedom to fly.'

The Freedom to Fly campaign thus illustrates one of the key problems faced in relation to sustainability: how to reconcile the inevitable trade-offs between social, economic, and environmental considerations.

SOURCES

BBC (2002). 'UK air industry looks to expand'. BBC News On-line, 14 Jan., **http://news.bbc.co.uk**.
Macalister, T. (2002). 'Virgin flies back to Atlantic business'. *Guardian*, 15 Jan.: 23.

■ Think theory

Think about the example Freedom to Fly campaign in terms of the triple bottom line of sustainability. Which aspects of sustainability are raised here?

if equity is to be extended to future generations, then logically it should also be extended to all those in the current generation. Hence, one of the WCED's primary espoused aims was the eradication of world poverty and inequity.

As we see it then, sustainability can be regarded as comprising three components—environmental, economic, and social. This suggests the following definition:

> Sustainability refers to the long-term maintenance of systems according to environmental, economic, and social considerations.

Whilst we regard this definition as sufficient for determining the essential content of the sustainability concept, it is evident that sustainability as a phenomenon also represents a specific goal to be achieved. The framing of sustainability as a goal for business is encapsulated most completely in the notion of a 'triple bottom line' (Figure 1.5).

The triple bottom line

The triple bottom line (TBL) is a term coined by, and vigorously advocated by, John Elkington, the director of the SustainAbility strategy consultancy and author of a number of influential books on corporate environmentalism. His view of the TBL is that it represents the idea that business does not have just one single goal—namely adding economic value—but that it has an extended goal set which necessitates adding environmental and social value too (Elkington 1999). From this perspective, it should be clear why we have highlighted sustainability as a potentially important new goal for business ethics. However, in order to develop a clearer picture of just what the three components of sustainability actually represent in terms of a new goal for business ethics, we shall have to examine each of them in turn.

Environmental perspectives

As we mentioned briefly above, the concept of sustainability is generally regarded as having emerged from the environmental perspective, most notably in forestry management and then later in other areas of resource management (Hediger 1999). Indeed, it would probably be true to say that, at the present moment, there is still a fairly widespread conception within business (though we believe a mistaken one) that sustainability is a purely environmental concept.

The basic principles of sustainability in the environmental perspective concern the effective management of physical resources so that they are conserved for the future. All biosystems are regarded as having finite resources and finite capacity, and hence sustainable human activity must operate at a level that does not threaten the health of those systems. Even at the most basic level, these concerns suggest a need to address a number of critical business problems, such as the impacts of industrialization on biodiversity, the continued use of non-renewable resources such as oil, steel, and coal, as well as the production of damaging environmental pollutants like greenhouse gases and CFCs from industrial plants and consumer products. At a more fundamental level, though, these concerns also raise the problem of economic growth itself, and the vexed question of whether future generations can really enjoy the same living standards as us without a reversal of the trend towards ever more production and consumption.

Economic perspectives

The economic perspective on sustainability initially emerged from economic growth models that assessed the limits imposed by the carrying capacity of the earth (see Meadows et al. 1974). The recognition that continued growth in population, industrial activity, resource use, and pollution could mean that standards of living would eventually decline, led to the emergence of sustainability as a way of thinking about ensuring that future generations would not be disadvantaged by the activities and choices of the present generation. Economists such as Kenneth Arrow (Arrow and Hurwicz 1977), Herman Daly (Daly 1991; Daly and Cobb 1989), and David Pearce (1999) have since been highly influential in advancing the agenda for macroeconomic understanding of sustainability.

The implications for business ethics of such thinking occur on different levels. A narrow concept of economic sustainability focuses on the economic performance of the corporation itself: the responsibility of management is to develop, produce, and market those products that secure long-term economic performance for the corporation. This includes a focus on those strategies which, for example, lead to a long-term rise in share price, revenues, and market share rather than short-term 'explosions' of profits at the expense of long-term viability of success. An example of an unsustainable approach in this perspective would be the 'dot.com bubble' at the beginning of this century. A broader concept of economic sustainability would include the company's attitude towards and impacts upon the economic framework in which it is embedded. Paying bribes or building cartels, for instance, could be regarded as economically unsustainable because these activities undermine the long-term functioning of markets. Corporations which attempt to avoid paying corporate taxes through subtle accounting tricks might be said to behave in an unsustainable way: if they are not willing to fund the political-institutional environment (such as schools, hospitals, the police, and the justice system) they erode one of the key institutional bases of their corporate success.

Social perspectives

The development of the social perspective on sustainability has tended to trail behind that of the environmental and economic perspectives (Scott et al. 2000) and remains a relatively new development. The explicit integration of social concerns into the business discourse around sustainability can be seen to have emerged during the 1990s, primarily, it would seem, in response to concerns regarding the impact of business activities on indigenous communities in less developed countries and regions. It would be wrong to assume though that this means that, until this time, local community claims on business (and other social issues) went entirely unheard by business, or unexamined by business ethics scholars. Indeed, in Chapter 2 we shall be tracing a quite impressive literature dealing with such issues. However, the inclusion of social considerations such as these within the specific domain of sustainability marked a significant shift in the way that notions of sustainability were conceptualized.

The key issue in the social perspective on sustainability is that of *social justice*. Despite the impressive advances in standards of living that many of us have enjoyed, the UN

2001 *Report on the World Social Situation* (UN 2001) identified growing disparities in income and wealth within many countries, including much of Latin America, Eastern Europe, and almost two-thirds of OECD countries. Similarly, the report identified a continued widening in the distance between richer and poorer countries. The UN also identified general under-provision and widespread deterioration of basic services in many countries, coupled with an inability to keep pace with even basic needs. As one of the main engines of economic development, business is increasingly bound up in such debates. Therefore a more just and equitable world, whether between rich consumers in the west and poor workers in developing countries, between the urban rich and the rural poor, or between men and women, remains the central concern in the social perspective on sustainability.

Implications of sustainability for business ethics

Given this extended set of expectations placed on business according to the triple bottom line of sustainability, there are clearly significant implications for how we should look at business ethics. Issues of an ethical nature, be they plant closures, questionable marketing techniques, or industrial pollution, demand that we consider a diverse and complex range of considerations and concerns. However, to achieve genuine sustainability in any of the three areas, still more in *all* of them, is perhaps expecting too much at the present time. After all, there are few if any products, businesses, or industries that can confidently claim to be sustainable in the full sense of the word. However, with the notion of sustainability widely promoted by governments, businesses, NGOs, and academia, it is clearly vital that we understand its full implications and evaluate business ethics practices at least according to their *potential* to contribute to sustainability. As Elkington (1999) suggests, the TBL is less about establishing accounting techniques and performance metrics for achievements in the three dimensions (which we shall look at in Chapter 5), and more about revolutionizing the way that companies think about and act in their business. It is these challenges, as they are framed according to each of the corporation's stakeholders, that we shall be examining in the second part of the book.

Europe: a new perspective for business ethics?

Having addressed the challenges for business ethics represented by globalization, as well as the goals proposed by sustainability, we come now to the final part of this introductory chapter where we examine the question of whether there is a distinctly European perspective on business ethics.

Whilst ethical and unethical business practices have long been the subject of public debate in Europe, the formal academic subject of business ethics is largely an American invention and has most of its roots and a large part of its traditions on the other side of the Atlantic. The reception of business ethics in Europe however is fairly young, and only became visible from the beginning of the 1980s (van Luijk 2001). In presenting a European text we believe that although many of these original ideas have been, and still are, very useful in the European context, there are definite limits to the transfer of North American approaches into the European business context. The European context poses some distinctly different questions, which are not necessarily on the agenda from an American perspective (Spence 2002). Likewise, Europe has quite a distinct historical, philosophical, and religious legacy, giving rise to a different approach to the study, as well as the practice, of business ethics in Europe (von Weltzien Hoivik 2002).

What is Europe?

When talking about Europe the immediate question normally would be: what exactly is meant by the term Europe? In simple geographic terms, one could think of the territory between Ireland and Portugal in the west and the Urals and the Bosporus in the east, and from Lapland in the north to Sicily in the south. However, in terms of economic conditions and business activities, this is an extremely heterogeneous entity, which would easily require different books about these different 'Europes'. Therefore, moving on from these merely geographical framings, there can be no doubt that for our purposes, Europe is better defined by a common intellectual and cultural heritage (Morin 1987).

For practical reasons, we will use the term 'Europe' in the sense that it includes the members of the European Union as well as its new and prospective new member states in the east, and including countries such as Norway and Switzerland, which are not as yet members of the EU. We are aware that this is still a bit delicate, given the heterogeneity of the cultural heritage amongst these countries. For example, one might argue that the UK shares a more substantial cultural heritage with the USA than with the rest of Europe, whilst continental Europe in many aspects differs quite significantly from the UK in the areas that are relevant to the topic of this book. However, given the long history of international relations within Europe, as well as increasing integration in recent years, as exemplified by the EU and the euro currency, one might reasonably argue that Europe as a whole represents a distinct world block that is differentiated from that of North America, from where much of the literature on business ethics has originated. This, as we shall now see, has a number of important implications for how we shall be approaching the subject of business ethics.

European and American approaches to business ethics

Authors such as Henk van Luijk (1990), David Vogel (1992; 1998), and Georges Enderle (1996) have claimed that there are certain fundamental differences in the way in which business ethics is practised and studied in Europe compared to the USA. We shall look at these differences in relation to six key questions (summarized in **Figure 1.6**).

- **Who is responsible for ethical conduct in business?**

The USA exhibits a strong culture of individualism, suggesting that individuals are responsible for their own success. Hence, if there is demand for solving ethical questions, it is the individual who is usually expected to be responsible for making the right choices.

	United States	Europe
Who is responsible for ethical conduct in business?	The individual	Social control by the collective
Who is the key actor in business ethics?	The corporation	Government, trade unions, corporate associations
What are the key guidelines for ethical behaviour?	Corporate codes of ethics	Negotiated legal framework of business
What are the key issues in business ethics?	Misconduct and immorality in single decision situations	Social issues in organizing the framework of business
What is the dominant stakeholder management approach?	Focus on shareholder value	Multiple stakeholder approach

Figure 1.6. Differences between Europe and the United States from a business ethics perspective

There is an impressive literature dealing with individual ethical decision-making emanating from the USA (as we shall discuss in Chapter 4), and many US textbooks focus on decision-making at this level (e.g. Ferrell et al. 2002; Treviño and Nelson 1999). In Europe, however, it has traditionally been thought that it is not the individual business person, nor even the single company, that is primarily expected to be responsible for solving ethical dilemmas in business. Rather, it is a collective and overarching institution, usually the state. European business ethics has therefore tended to focus more on the choice *of* constraints compared with the US approach of focusing on choice *within* constraints (Enderle 1996).

- **Who is the key actor in business ethics?**

The result of this is that in most European countries there is quite a dense network of regulation on most of the ethically important issues for business. Workers' rights, social and medical care, and environmental issues are only a few examples where European companies could be said to have traditionally not had to consider so very much the moral values which should guide their decisions. These questions have, at least in principle, been tackled by the government in setting up a tight institutional framework for businesses. Examples range from the Scandinavian welfare state, to the German cohabitation system, and the strong position of trade unions and workers' rights in France.

In Europe, governments, trade unions, and corporate associations have therefore been key actors in business ethics. In most (but not all) areas, the institutional framework of business ethics in the USA has been significantly looser, and so the key actor has tended to be the corporation. This at least partly explains the more practical altitude to business ethics evident in the US approach (Enderle 1996). Similarly, given that business ethics is particularly important when the law has not yet codified the 'right' or 'wrong' of a certain action, this would also seem to partially explain the longer legacy of the subject in the USA. However, the identification of the corporation as the key actor in the USA also means that corporate misconduct tends to face greater enforcement and harsher penalties (Vogel 1992).

- **What are the key guidelines for ethical behaviour?**

This differing character and extent of the legal framework in Europe and the USA to some degree necessitates different approaches to business ethics on each side of the Atlantic (as we will see in more detail in the second part of the book). Similarly, it also suggests that whereas the key guidelines for ethical behaviour in Europe tend to be codified in the negotiated legal framework of business, in the USA, guidelines tend to come from businesses themselves, in the form of corporate codes of ethics and internal compliance programmes (Enderle 1996). However, these are often put in place to avoid the potentially hefty fines that accompany breaches of the US federal sentencing guidelines (Vogel 1992).

- **What are the key issues in business ethics?**

This contrast is manifested in the types of issues deemed important within business ethics on the two sides of the Atlantic. This becomes evident when looking at contemporary US business ethics textbooks, since they tend to accord considerable amount of space to issues such as privacy, workers' rights, salary issues, and whistleblowing, just to name a few. These are deemed to be the responsibility of the individual company, since the state, in principle, does not take on full responsibility for regulating these issues. The European approach, in contrast, has tended to focus more on social issues in organizing the framework of business. Hence, European business ethics textbooks have tended to also include greater consideration of subjects such as the ethics of capitalism and economic rationality (Enderle 1996).

- **What is the most dominant stakeholder management approach?**

Another important aspect that follows from the above is the different character of European and US corporations (Whitley 1992). European corporations in general are smaller, and see multiple stakeholders as opposed to simply shareholders as the focus of corporate activity. European models of capitalism are not so dominated by the drive for shareholder value maximization compared with American companies. European companies are often managed by large executive and supervisory boards, with considerable amount of interlocking ownership structures between companies and close bank relations (van Luijk 1990).

Sources of difference between Europe and America

From where have such differences emerged? Thinking in terms of Europe as a shared cultural and intellectual heritage, we can see that many of these differences are rooted in the differing cultural, economic, and religious histories of the USA and Europe. For example, even though today we tend to talk about much of Europe and the USA as secularized countries, there are significant differences in the religious legacies of the two regions. One argument here is that the influence of the Catholic and Lutheran Protestant religions in Europe led to a collective approach to organizing economic life whereas the individual focus of the Calvinist Protestant religion in the USA led to the rise of a distinctly different, capitalist (in the original sense) economic system (Weber 1905).[5]

Georges Enderle (1996) suggests that the interest in broader macro issues of business ethics in Europe can also be partly traced to the need to rebuild institutions after the Second World War and in the aftermath of economic and political restructuring in Eastern Europe. Moreover, Vogel (1992) argues further that the focus on individual action and codes of conduct in the USA has been substantially driven by the impact of widely publicized corporate scandals which have focused attention on the need to avoid ethical violation at the firm level. As we can see, then, there are a number of reasons that can be advanced to explain these differences. But does this mean the differences are becoming more or less distinct?

Globalization and assimilation between Europe and America

Finally, then, we might ask whether these culturally rooted differences in business ethics between Europe and the USA are likely to be sustained given ongoing processes of globalization. Certainly, globalization has quite significantly reduced and mitigated some of the peculiarities of the European business system and the European firm (Whittington and Mayer 2002). Therefore, however important it is to see the differences between Europe and the USA, there is a clear tendency of assimilation in the different business systems. In Europe, this has been manifested in a decrease in importance of (especially national) governmental regulation for business. Globalization has resulted in a rapid and comprehensive move towards deregulation of business activities which increasingly puts businesses in contexts similar to the American version of capitalism (van Luijk 2001). This is even more the case if we focus on Eastern Europe: economies in transition are typically characterized by a weak state, and a deficit in law enforcement, which together leave a growing amount of ethical issues to be tackled by businesses (Lang 2001). Therefore this book, while keeping a distinct focus on the European corporation and its experience of globalization, will also integrate and discuss contributions from the American business ethics school, as there is still a considerable (even growing) overlap in issues, problems, and agendas.

[5] In a nutshell, this argument suggests that Catholicism sees people as sinners, who depend on the Church to help them and to lead them on the right way throughout their life, so that they reach heaven and salvation once their life on earth comes to an end. Man is born into this world, receives salvation through baptism in the Church as a baby, becomes a member of the Church as a child, receives various sacraments such as marriage or the regular pardon of sins after confession, and, upon death, the priest is there to administer the 'last rites'. This has supposedly then led to an approach to organizing social and economic life where the collective, chiefly the state, has the main responsibility. The individual's well-being is more of a public issue rather than a result of the individual's personal struggle for wealth, success, and happiness. Calvinism on the contrary is said to see man as a responsible being with an individual responsibility to work for his or her own salvation. People are sinners, but they are able to achieve salvation by leading a godly and pious life. To attain salvation is one's individual responsibility and, most notably, is beyond the authority of the Church or any other superior authority. It is argued that this religious approach has led to a very different approach: if the individual is in charge of their own future success, there should be the least amount of hindrances to do so. The individual's success is the dominant focus of the economic system, and the rules and institutions in society should be tailored in such a way that every person is able to succeed in the most effective manner.

Specifically, we shall provide the following balance between the two traditional positions on each of the main differences in business ethics evident in Europe and the USA:

- Rather than selecting either one or the other, we will consider *both* the individual decision-maker and the corporation itself as responsible for ethical conduct. Although it is clearly individuals in organizations who ultimately make business ethics decisions, the European tradition suggests that we also have to look at the context that shapes those decisions. Moreover, most of us quite naturally regard corporations as significant actors in business ethics. If there is an incident of industrial pollution or it is revealed that children are being used in an overseas factory, it is usually the company as a whole that we criticize rather than any specific manager(s);
- We will focus on the corporation in its *relations* with other key actors such as government, pressure groups, and trade unions;
- We will provide a critical perspective on *both* individual level ethical guidelines, such as codes of conduct, *and* broader forces shaping ethical decision-making such as product and financial markets, supply chains, civil society, and systems of governance;
- The morality of single business situations will be considered in the *context* of the organizing framework of business;
- A multiple stakeholder approach that *includes* shareholders as a particularly important constituency will be taken. As we will outline in Chapter 2, this assumes some intrinsic rights for stakeholders rather than focusing only on their role in affecting shareholder value.

Summary

In this chapter we have defined business ethics, and set it within a number of significant currents of thinking. First, we have shown the importance of business ethics to current business theory and practice, suggesting that knowledge of business ethics is vital in the contemporary business environment. Second, we have argued that business ethics has been fundamentally recontextualized by the forces of globalization, necessitating a distinctly global view of ethical problems and practices in business. Third, we have identified sustainability as a crucial concept that helps to determine and frame the goals of business activities from an ethical perspective. Finally, we have made the case for a distinctly European perspective on business ethics, given both the specific intellectual and commercial heritage in Europe, as well as the need to understand current developments insofar as they are likely to affect European business and society. In the rest of the book we shall revisit these themes of globalization, sustainability, and Europe many more times in order to expand, refine, and contextualize the initial arguments put forward here. In the next chapter, though, we shall move on to consider specifically the social role and responsibilities of the corporation, and examine the emerging concept of corporate citizenship.

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STUDY QUESTIONS

1. How would you define business ethics? Do you agree with the definition given in this chapter?
2. Critically evaluate the proposition that business ethics is an oxymoron.
3. What is the relation between business ethics and the law?
4. What is globalization? Select one multinational corporation based in your home country and set out the different ways in which globalization might have reframed business ethics for that corporation.
5. What is sustainability? To what extent do you think it is possible for corporations in the following industries to be sustainable:
   (*a*) Tobacco industry
   (*b*) Oil industry
   (*c*) Car industry

   Explain your answers.
6. In what ways do you think that the context of the country you are currently studying in differs in the way that business ethics is thought about and practised compared with:
   (*a*) The USA
   (*b*) Other European countries

RESEARCH EXERCISE

Conduct some research on the ethical issues and criticisms that accompanied the Enron accounting scandal in 2002.

1. What were the main issues and criticisms in this case?
2. To what extent is it possible to classify these as ethical as opposed to legal violations?
3. What influence do you think this scandal had on the general public's view of business ethics?
4. To what extent do you think the problems at Enron were related to its US context? Could similar problems arise in Europe? Explain your answer.

CASE 1

McEurope: McDonald's faces ethical criticism in Europe

This case examines campaigns against the US fast food chain McDonald's in Europe, focusing on the McLibel trial in the UK, and the farmers' protests led by Jose Bové in France. The criticisms faced by McDonald's have covered many of the key issues around globalization and sustainability that we have discussed in Chapter 1, and the case offers a chance to explore the specifically European context of these issues.

McDonald's is truly a multinational corporation. By 2002, the firm was operating some 29,000 restaurants in 121 countries, serving an incredible 46 million customers a day. The market leader in its industry, and one of the most vigorous exponents of a global business approach, McDonalds has pioneered an innovative business model that has since been widely imitated, in the fast food industry and beyond.

However, there are many who are not so positive about the corporation's approach, and protests against McDonald's have been a common feature of the past two decades. Nowhere has this been more evident than in Europe, where since the corporation first entered the region in the 1970s, the rapid inroads it has made into European markets have been paralleled with growing numbers of anti-McDonald's attacks. The two phenomena that perhaps most exemplify the issues arising in Europe, as well as the approach that McDonald's has taken in response to its critics in the region, are the McLibel trial in the UK, and the farmers' protests led by Jose Bové in France.

McLibel: McDonald's goes to court in the UK

Whilst McDonald's business achievements have been many, the company probably did not anticipate gaining the distinction of being the subject of England's longest ever trial. But that is exactly what happened following the corporation's decision in 1990 to take two activists, Helen Steel and Dave Morris, to court for distributing a leaflet headed 'What's Wrong with McDonald's?' The leaflet attacked McDonald's on a wide range of issues, including the promotion of unhealthy food, ill treatment of animals, exploitation of staff, environmental damage, economic imperialism, exploitation of children, and the destruction of rainforests.

This was certainly not the first time that McDonald's had taken to the courts to defend its reputation. However, in the past, it had usually found that the mere threat of legal action was sufficient to force retractions from its critics. According to the *Guardian* newspaper, in the UK alone McDonald's had threatened legal action against more than ninety organizations since the early 1980s, including the BBC, Channel 4, the Vegetarian Society, the *Guardian*, and even a children's theatre group. All had been forced to make apologies rather than face the enormous risks of going to trial. For McDonald's, then, the strategy of responding to criticism through immediate legal threat had been a successful one, at least in terms of denying public voice to their critics. In the case of Steel and Morris, however, the resulting McLibel trial produced a rather different result.

The McLibel trial was an epic case. There were twenty-eight pre-trial hearings before the case even got to court. Then, from June 1994 to December 1996, over 313 days in the court, every one of the accusations made in the 'What's Wrong with McDonald's?' leaflet was meticulously examined and contested. With 180 witnesses called to court, including environmentalists, nutritionists, former employees, and trade unionists, and 40,000 pages of documents and witness statements admitted, almost every aspect of the multinational's vast business empire came under scrutiny. As the case dragged on, the modern-day David and Goliath story of the community gardener (Steel) and the unemployed postal worker (Morris) who defended themselves (without lawyers or legal aid) against the corporate giant attracted massive international publicity.

The McSpotlight website was set up in 1996 in support of the defendants and immediately made a wealth of information critical of McDonald's available to an international audience. Versions of the very leaflets that were at issue in the court battle began to be far more widely distributed than the defendants could ever have dreamed of. Hosted in the Netherlands (in the belief that any efforts by McDonald's to close the site down would be greatly resisted there) McSpotlight gained immediate international media coverage and recorded millions of hits—including 1,700 visits from McDonald's itself in the first week alone! The site carried transcripts and statements from the trial, and revelled in some embarrassing comments from senior McDonald's figures. For example, David Green, the Senior Vice-President of Marketing, suggested that Coca-Cola was 'nutritious' because it was 'providing water, and I think that is part of a balanced diet'. Ed Oakley, the UK Chief

Purchasing Officer, even claimed that the dumping of waste was 'a benefit, otherwise you will end up with lots of vast, empty gravel pits all over the country'!

When the judge finally delivered his verdict in June 1997, it represented a partial victory for both sides. Steel and Morris were ruled to have not proved their allegations against the multinational on issues of rainforest destruction, heart disease and cancer, food poisoning, starvation in the third world, and bad working conditions. However, they were adjudged to have proven their claims that McDonald's 'exploits children' with its advertising; is 'culpably responsible' for cruelty to animals; is 'strongly antipathetic' to unions; pays its workers low wages; falsely advertises its food as nutritious; and risks the health of its most regular, long-term customers. The defendants were ordered to pay £60,000 in damages (reduced to £40,000 on appeal in 1999), which Steel and Morris immediately said they would not pay and which McDonald's has never tried to collect. The verdict was met with a day of action of leafleting and protests outside McDonald's restaurants across the world.

The trial became the subject of an acclaimed book, a TV programme, a documentary film, and numerous media articles. McDonald's has since decided not to apply for an injunction to halt any further dissemination of the original leaflet, which has now been translated into twenty-six languages and is freely available on McSpotlight and elsewhere.

Jose Bové: France's farm crusader takes on McDonald's

As it was recovering from the public relations disaster of the McLibel trial in the UK, McDonald's immediately found itself caught up in further tribulations across the channel. In August 1999, in the town of Millau in southern France, up to 300 protesters stormed a building site and wrecked a half-built McDonald's restaurant. Jose Bové and nine other members of his radical farmers' union, the Confédération Paysanne, were subsequently accused. Bové argued that the attack was in protest against US trade restrictions on French delicacies, such as Roquefort cheese, which is produced in the region around Millau. The restrictions had been put in place by the USA following an EU ban on unlabelled hormone-injected American beef.

Bové, a sheep farmer and union leader, immediately became a folk hero in France for his defence of small, local producers. With his large moustache, the French media likened him to the cartoon character Astérix, the indomitable Gaul who fights against the might of the Roman Empire. Bové also became heavily involved in the fight against genetically modified crops, and subsequently led Brazilian farmers on a mission to destroy trial fields of GM crops. Hailed as a 'McHero' for his exploits, these crusades against the injustices of the world trade system led to him being taken up as a figurehead for anti-globalization protesters.

His trial for the McDonald's attack took place in July 2000 and saw thousands of protesters take to the streets of the tiny market town of Millau. The carnival atmosphere saw streets covered in banners and filled with stalls selling local produce and distributing anti-globalization and anti-McDonald's leaflets. Bové was eventually given a three-month jail sentence for the attack, whilst eight of the his nine accomplices were also convicted and handed lesser sentences.

Two years after the first McDonald's attack, Bové returned to the now completed Millau restaurant in August 2001. In a peaceful demonstration, Bové and several thousand protesters barred access to the restaurant claiming that McDonald's exemplified 'la malbouffe americaine' (crap American food), and the inexorable march of multinationals and their threats to the small producer. Said Bové: 'For me, malbouffe means both the standardisation of food—the same taste from one end of the world to the other—and the choice of food associated with the use of hormones and GMOs.' The Millau restaurant manager defended McDonald's against Bove's attacks, saying: 'We work as partners with French agriculture. We buy French, and serve one million meals a day.'

The next chapter in the story was yet more symbolic. In December 2001, McDonald's announced that from January 2002 the international icon Ronald McDonald would be replaced in French TV adverts by none other than Astérix the Gaul. Regularly identified as France's favourite cartoon character, the drafting in of Astérix appeared to be an attempt by McDonald's to appease anti-American feeling and counter the anti-globalization backlash that had centred upon the US multinational.

Questions

1 Set out the main criticisms that have been levelled at McDonald's. Are these criticisms specific to the corporation, or are there other more general issues at stake? If so, what are they?

2 Describe and evaluate the tactics used by McDonald's in responding to their critics in the UK and France.

3 How could McDonald's seek to avoid similar problems in the future?

Sources

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