

Gabriel Flynn *Editor*

Leadership and Business Ethics

Second Edition

Issues in Business Ethics

Volume 60

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Gabriel Flynn
Editor

Leadership and Business Ethics

Second Edition

 Springer

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Dublin City University
Dublin, Ireland

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*In memory of Ron Duska (1937–2018),
our esteemed colleague.*

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Chapter 1

A Framework for Leadership and Ethics in Business and Society



Gabriel Flynn and Patricia H. Werhane

Abstract This chapter provides an introduction to the second edition of *Leadership and Business Ethics*. It advocates an enduring relationship between ethics and business for human flourishing in commerce and society. Such a liaison depends directly on virtuous businesspeople and ethical business leaders. It necessitates the cultivation of conscience and discernment, virtue and character in the leader's psyche within a supportive societal / cultural environment, a process which takes time, patience, and humility as those engaged in business work to overcome inevitable setbacks and failures on the path to prosperity. The role of imagination and is also critical for effective ethical leadership. From the imagination springs hope and fortitude, virtues that enable individuals, organizations, and entire communities to transcend trauma and hardship. The chapter also presents a consideration of key developments in business ethics in the recent past by the *Harvard Business Review*, a leading professional journal of business, and provides helpful insights into past progress and present challenges. The chapter concludes with a brief introduction to the studies exhibited in this extended volume.

Keywords Imagination · Character · Leader's psyche · Fortitude · Unrestrained greed · Leadership-as-process model · *Amoris Laetitia* · Anglo Irish Bank · Golden era of global growth · Rana Foroohar

This book advocates an enduring relationship between ethics and business for human flourishing in commerce and society. Such a liaison depends directly on virtuous businesspeople and ethical business leaders. It necessitates the cultivation of conscience and discernment, virtue and character in the leader's psyche within a

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supportive societal / cultural environment, a process which takes time, patience, and humility as those engaged in business work to overcome inevitable setbacks and failures on the path to prosperity. The role of imagination is also critical for effective ethical leadership since from the imagination springs hope and fortitude, virtues that enable individuals, organizations, and entire communities to transcend trauma and hardship. In addition, bravery is required. The need for brave leaders at all levels of commerce and business, finance and banking, government and politics is more urgent than ever in view of the instantaneous global reach of information and communications technology networks and of the immense psychological and monetary cost of global financial crises.¹ Courageous leaders can also serve as a buffer against the perennial predisposition in people, corporations, and entire nations to act unethically, in myopic, short-term self-interest, and in a spirit of unrestrained greed. These inherently human flaws are major contributory factors in the generation of financial stress, crisis, and in ultimate societal disaster.²

Ron Carucci articulates a clear statement of what is required for building an ethical business. 'In an age of corporate mistrust, creating ethical workplaces takes more than compliance programs. It requires ongoing intensified effort to make the highest ethical standards the norm, and ruthless intolerance of anything less.'³ Carucci's uncompromising stance, however, begs a difficult question. Are the leaders of banking, commerce, business, and politics listening to and applying the prevailing ethical discourse or are they merely protecting themselves and their respective constituencies against fault and / or blame in the face of grave difficulties by tangential recourse to ethics? Confronted by such difficulties, we suggest that the ethical leadership-as-process model which recognizes a legitimate role for virtue, conscience, spirituality, and servant leadership should be given more careful consideration.⁴ In this regard, the contribution of Pope Francis to the role of conscience, discernment, and gradualness in Catholic family life, *Amoris Laetitia* 2015, has been shown to be directly relevant to business and business ethics. As Caleb Bernacchio of the IESE Business School has shown in an incisive essay as follows: '*Amoris Laetitia* provides a means of closing the gap between objective moral principles and business practice ... such that moral principles come to be an inherent

¹ See Matteo Duiella and Alessandro Turrini, 'Poverty developments in the EU after the crisis: a look at main drivers', European Commission / ECFIN *Economic Brief*, 31 May 2014, available at <https://ec.europa.eu/economy_finance/publications/economic_briefs/2014/pdf/eb31_en.pdf> Accessed 23 February 2020.

² See, for example, Ron Carucci, 'Why Ethical People make Unethical Choices', *Harvard Business Review*, 16 December 2016, available at <<https://hbr.org/2016/12/why-ethical-people-make-unethical-choices>> Accessed 23 February 2020.

³ Ibid.

⁴ See Fahad Shakeel, Peter Mathieu Kruyen & Sandra Van Thiel 'Ethical Leadership as Process: A Conceptual Proposition', *Public Integrity*, 21:6, 2019, 613–24, available at <<https://www.tandfonline.com/doi/pdf/10.1080/10999922.2019.1606544?needAccess=true>> Accessed 23 February 2020.

part of an organization, and inform the discernment processes of ordinary businesspersons'.⁵

A successful coalescence of business and business ethics is also critical in view of current record levels of global debt that are set to continue on an upward trajectory. Analysts at the Institute of International Finance have shown that in 2019 global debt exceeded \$255 trillion, more than three times the size of the global economy, largely driven by China and the USA.⁶ This situation is further exacerbated by unresolved tensions in the banking and finance systems of some of the southern economies of the European Union (EU), issues that are a significant contributory factor in elevated rates of poverty in the region. It should be noted that determining levels of poverty and exclusion in the EU is complex due to the fact that individual member states use different markers in the compilation of statistics. The key indicator is the number of people at risk of poverty or exclusion. The 'Europe 2020 Strategy' set the target of 'lifting at least 20 million people out of the risk of poverty or social exclusion' by 2020 compared to the year 2008.⁷ The chances of meeting such goals are dependent on participation in education and employment both of which are further complicated by a major crisis in the provision of housing and the associated problem of homelessness in many EU countries. Housing inequality is, in fact, at the heart of a growing social division across Europe.⁸ Added to these complexities are the seemingly irresolvable global blackspots of Syria, Venezuela, Afghanistan and Iraq, to mention some of the most prominent and, at least in the short term, apparently irrecoverable flashpoints on the world stage.

Without sound business leadership of the sort that upholds the dignity and rights of employees and clients, as well as the interests of shareholders and of the widest spectrum of societal stakeholders, even the most meticulously prepared ethics statements are destined to founder, as evidenced at Enron, and Lehman Brothers in the USA, and at the now defunct Anglo Irish Bank, Dublin, and many other financial institutions elsewhere, in a seemingly unending series of financial crises. Over the past half century or so since business ethics became established as a discipline in its own right, much progress has been made in the ethical conduct of business.⁹ In short, businesspeople, like politicians, members of the medical profession, church authorities, and voluntary organizations have come to realize that it is impossible to

⁵Caleb Bernacchio, 'Pope Francis on Conscience, Gradualness, and Discernment: Adapting *Amoris Laetitia* for Business Ethics', *Business Ethics Quarterly*, 29 (2019) 437–60 (439).

⁶Institute of International Finance, 'Global Debt Monitor 2019', available at <<https://www.iif.com/Research/Capital-Flows-and-Debt/Global-Debt-Monitor>> Accessed 23 February 2020.

⁷See 'Europe 2020 Strategy: Poverty and Social Exclusion Indicators', August 2019, available at <<https://ec.europa.eu/eurostat/statistics-explained/pdfscache/29306.pdf>> Accessed 23 February 2020; also Patricia H. Werhane's 'Big Questions', an award-winning TV series on social justice and poverty alleviation, available at <<https://www.bqnow.com/>> Accessed 23 February 2020.

⁸For a country by country analysis of housing in the EU in 2019, see 'The State of Housing In the EU', available at <<http://www.housingeurope.eu/resource-1323/the-state-of-housing-in-the-eu-2019>> Accessed 23 February 2020.

⁹See Gabriel Abend, 'The Origins of Business Ethics in American Universities, 1902–1936', *Business Ethics Quarterly*, 23 (2013), 171–205.

avoid involvement in ethics, for much of what businesspeople and financiers do and cannot do, is subject to ethical scrutiny. While the history of business ethics as currently practiced may be traced to the medieval and ancient periods, our principal concern here is with developments in the field in the recent past. A consideration of how the topic has been treated in the *Harvard Business Review*, a leading professional journal of business, provides helpful insights into past progress and present challenges.

In 1929, just as business ethics was beginning to evolve in the modern context, Wallace B. Donham in 'Business Ethics – A General Survey' provides a precise definition of business ethics: 'We start here to-night a new foundation to deal with one of the greatest of topics – a subdivision of ethics; for business ethics with its own particular characteristics is, after all, a subdivision of general ethics.'¹⁰ Donham identifies the principal areas of concern for business ethics. First, 'the internal relations of the business group, how business men are to live with business men'; and, secondly, 'the external relations of the group, how business is to live with the community.'¹¹ Not surprisingly, he asserts that the latter contains the most significant and neglected areas of concern to the business community. The significance of Donham's essay lies in its recommendations concerning 'business and its responsibilities.' Fully cognisant of the 'basic instincts of our common humanity, such as fear and selfishness, as well as the desire to stand well with our peers,'¹² Donham points to the value of corporate social responsibility, albeit in embryonic form. As he remarks: 'Our new group of business men must develop and enforce a group conscience if the evolution of business ethics is to be speeded up; a group conscience which will hold not only the individual but the whole group to both personal and group responsibility for relations with the rest of the community.'¹³ While attributing limited value to law and codes of ethics in the regulation of business, Donham ultimately points to the power of the community and of public opinion for the establishment and maintenance of ethics in business, in which domain effective leadership is indispensable:

Just as the law is inadequate to solve business problems because it is slow to operate and static in its nature, so codes of ethics have their limitations and their dangers. [...] It is the thinking of the tribe which determines the character and type of tribal leadership. If the community expects much from its leaders it will get much. If it expects and honors cynical money-making and esteems such accomplishment, it will produce this type of leadership. [...] A discriminating public opinion, approving and rewarding socially sound business accomplishment, and ostracizing the socially unsound, will bring about a real contagion of health. For most of our ethical and social standards in all areas are made effective, in the last analysis, by the force of public opinion.¹⁴

¹⁰ Wallace B. Donham, 'Business Ethics – A general Survey', *Harvard Business Review* 7 (1929) 385–94 (385).

¹¹ *Ibid.*, 386.

¹² *Ibid.*, 389.

¹³ *Ibid.*, 390.

¹⁴ *Ibid.*, 393–94.

In a paper entitled 'Personal Decisions and Business Decisions' (1959), co-authored by Edmund P. Learned, Arch R. Dooley and Robert L. Katz, an important theme emerges, one that reflects the then growing concern among 'thoughtful businessmen' concerning the spiritual implications of business. As the authors remark: 'Symptoms of this concern are to be found everywhere. A tremendous number of speeches and articles on "religion and business" are receiving eager and enthusiastic response.'¹⁵ But the clearest evidence of the 'nature and strength of business's growing concern with spiritual values was evident in the Harvard Business Association's Fiftieth Anniversary Conference in September 1958, which had as its theme "Management Mission in a New Society." It is noteworthy that every major speaker stressed the importance of more attention to spiritual values.'¹⁶ The significance of spirituality for business was perhaps best encapsulated at that conference by the distinguished historian Arnold J. Toynbee. He pointed out that 'no society has ever flourished without a spiritual mission; the quest for material progress alone is insufficient to spur men on to the achievements which are required to create an enduring, dynamic, progressive nation. [...] It is significant that the great concern for more spirituality in business comes at a time when our material progress has achieved extraordinary heights.'¹⁷ The article furnishes a helpful definition of spirituality which, in view of persistent serious misunderstandings of the term, may be quoted in full:

There is nothing mysterious about the word spirituality. Spirituality in business, as we see it, is the process of seeking to discover, however imperfectly, God's law in each everyday work situation, and of trying to behave in each situation as nearly in accord with that law as we are able to. [...] Spirituality means making a continuing, conscious effort to rise above these inevitable human limitations – a maximum endeavor to comprehend the ultimate values, the truth and the reality of the orderliness of the universe – and to live in accordance with this reality.¹⁸

To the authors of this auspicious essay 'neither the proposition that business and spiritual considerations are separable nor the view that good ethics is good business is a fully adequate or satisfying guide for action.'¹⁹ Both of the aforementioned options are rejected as inadequate because neither recognizes the inevitability of conflict or the complexities involved in making business decisions. It is only by acknowledging that every business decision brings the businessperson into a conflicting set of forces in which he / she is obliged to choose between personal values and ultimate loyalties that business leaders can hope to rise to the difficult challenge of making the necessary discriminating business judgements. The importance of the contribution of Learned, Dooley and Katz lies in their advocacy for participation in

¹⁵ Edmund P. Learned, Arch R. Dooley, and Robert L. Katz, 'Personal Values and Business Decisions,' *Harvard Business Review* 37 (1959) 100–10 (111).

¹⁶ *Ibid.*, 112.

¹⁷ *Ibid.*, 113.

¹⁸ *Ibid.*

¹⁹ *Ibid.*, 117.

a process of discernment which implicitly recognizes that ‘there is a spiritual significance to every phase of man’s work, be it in business or any other calling.’²⁰

The question of conflict of interest involved in business decisions, referred to above, emerges again in a 1977 essay by Steven N. Brenner and Earl A. Molander, entitled ‘Is the Ethics of Business Changing?’ As part of a lengthy survey on business ethics and social responsibility completed by 1,227 *Harvard Business Review* readers, the editors attempt to establish how U.S. readers think compared with 1961 when the Jesuit scholar Raymond C. Baumhart, conducted a survey on business ethics. The authors concluded that ‘today’s executive often faces ethical dilemmas and observes generally accepted practices that he or she feels are unethical.’²¹ The responses to the 1976 survey also indicate that ethical codes can be most helpful in situations where there is general agreement that certain unethical practices are widespread and undesirable. However, codes are considered to be of only limited use to executives for either controlling outside influences on business ethics or resolving fundamental ethical dilemmas. The survey’s authors, in a clear reference to the enforcement problems inherent in ethical codes, conclude that codes ‘are no panacea for unethical business conduct.’²²

Perhaps the most interesting result of the 1976 *Harvard Business Review* survey is a new view of social responsibility. ‘The current revival of interest in business ethics coincides with a renewed focus on corporate social responsibility’.²³ While the survey disproves the caricature of the American business executive as a power-hungry, profit-bound individualist, it also identifies two barriers to social responsibility. First, corporations still resist measures when trying to put social responsibility into practice. A second major barrier is ‘uncertainty – uncertainty as to what “social responsibility” means. Almost half (46%) of our respondents agree with the assertion that the a “meaning of social responsibility is so vague as to render it essentially unworkable as a guide to corporate policy and decisions.”’²⁴ In response to the important question, ‘What do the results mean for managers and students of business ethics?’ the 1977 survey shows that respondents favour changes in managerial outlook and actions. These changes are summed up as follows: ‘It seems to us our respondents are saying that managers facing ethical dilemmas should refer to the familiar maxim, “Would I want my family, friends and employees to see this decision and its consequences on television?” If the answer is yes, then go ahead. If the answer is no, then additional thought should be given to finding a more satisfactory solution.’²⁵ Regardless of the preferences or choices of business leaders in the matter of business ethics and / or social responsibility, the survey’s authors argue

²⁰ *Ibid.*, 119.

²¹ Steven N. Brenner and Earl A. Molander entitled ‘Is the Ethics of Business Changing?’ *Harvard Business Review* 55 (1977) 57–71 (64).

²² *Ibid.*, 68.

²³ *Ibid.*

²⁴ *Ibid.*, 69.

²⁵ *Ibid.*, 71.

convincingly that the manager ‘has to realise that he must continue to bear the criticism of the larger society in both the business ethics and corporate social responsibility areas.’²⁶

We will now consider three essays which address an important topic of direct relevance to the present project, namely, business ethics and the role of the business schools. In 1993, Andrew Stark in an incisive article entitled ‘What’s the Matter with Business Ethics?’ notes that ‘far too many business ethicists have occupied a rarified moral high ground, removed from the real concerns and real world problems of the majority of managers.’²⁷ As a result, managers though they know they cannot safely dismiss the enterprise of business ethics, do find business ethics off-putting in practice. Stark observes that a number of prominent business ethicists have called for fundamental changes in business ethics as part of an attempt to offer new approaches of value to both business ethicists and professional managers. But even those business ethicists who have gone beyond the question ‘Why be moral?’ as part of an effort to address some of the hard ethical questions faced by managers, are dogged by the charge of failing to engage with the world of practice. As Stark comments ‘Even when business ethicists try to be practical, however, much of what they recommend is not particularly useful to managers.’²⁸ In response to the ‘crisis of legitimacy’ affecting business ethics, some business ethicists have begun to engage with ‘the messy world of mixed motives.’²⁹ Robert Solomon’s *Ethics and Excellence*,³⁰ provides a very useful contribution to a new business ethics by advocating an Aristotelian view of virtue that is moderate, practical, and useful to managers. Ultimately business and ethics must speak the language of profit as well as of virtue. As Stark remarks:

Moderation, pragmatism, minimalism: these are new words for business ethicists. In each of these new approaches what is important is not so much the practical analyses offered [as the authors acknowledge, much remains to be worked out] but the commitment to converse with real managers in a language relevant to the world they inhabit and the problems they face. That is an understanding of business ethics worthy of managers’ attention.³¹

In an essay entitled ‘How Business Schools Lost Their Way’ (2005), Warren G. Bennis and James O’Toole articulate a trenchant critique of schools that are deemed to be out of touch with the real world of business and management. ‘Too focused on “scientific” research, business schools are hiring professors with limited real-world experience and graduating students who are ill-equipped to wrangle with

²⁶ Ibid.

²⁷ Andrew Stark, ‘What’s the Matter with Business Ethics?’ *Harvard Business Review* 71 (1993) 38–48 (38).

²⁸ Ibid., 44.

²⁹ Ibid., 46.

³⁰ Robert C. Solomon, *Ethics and Excellence: Cooperation and Integrity in Business* (New York: Oxford University Press, 1993).

³¹ Andrew Stark, ‘What’s the Matter with Business Ethics?’ 48.

complex, unquantifiable issues – in other words, the stuff of management.’³² In summary, many business schools have adopted a *scientific model* which treats business like an academic discipline, and gauges success according to the excellence of research and the volume of publications in top academic journals rather than on the basis of business practice. As the business schools became focused on professorial research which though it helped to eliminate the ‘vocational stigma that business school professors once bore,’ also resulted in deleterious consequences for graduate business education, deemed to be ‘increasingly circumscribed and less and less relevant to practitioners.’³³ According to Bennis and O’Toole, the ‘new emphasis on scientific research in business schools remains, for the most part, unspoken. Indeed most deans publicly deny it exists, claiming that their schools remain focused on practice.’³⁴ The bitter complaint against the business schools and universities is, in the words of the columnist David Brooks, that they ‘operate too much like a guild system, throwing plenty of people with dissertations at students, not enough with practical knowledge...who teach students to be generalists, to see the great connections.’³⁵ In order to regain relevance and ‘to balance the goals of faculty members with the needs of other constituencies,’ Bennis and O’Toole urge the business schools to ‘look to their sister professional schools in medicine, dentistry and law for guidance.’³⁶ The most innovative law schools offer the best model for business because ‘they tend to award excellence in teaching and in pragmatic writing. Research is an important component of legal practice and education, but most of it is applied research, and its vitality is not equated with the presence of a scientific patina.’³⁷ Ultimately, it is a matter of balance, as Bennis and O’Toole acknowledge in pointing to a few top-tier business schools such as Harvard and IESE where ‘continued emphasis on case studies makes practitioners an integral part of the educational process.’³⁸ As part of an urgent curricular reform in the business schools, what is proposed is that ‘the entire MBA curriculum must be infused with multidisciplinary, practical, and ethical questions and analyses reflecting the complex challenges business leaders face. [...] Other professional schools have carved out standards that are appropriate for their various professions; now business schools must have the courage to do the same.’³⁹

To conclude, there are two further contributions to the *Harvard Business Review* that address the twin themes of leadership and business ethics that are at the heart of the present volume. The first by Nicholas Epley and Amit Kumar is entitled ‘How to Design an Ethical Organization’ (2019) in which the authors seek to put ethical design into practice. ‘Real people are not purely good or purely evil but are capable

³² Warren G. Bennis and James O’Toole, ‘How Business Schools Lost Their Way,’ *Harvard Business Review* 83 (2005) 96–104 (96).

³³ *Ibid.*, 98.

³⁴ *Ibid.*, 100.

³⁵ *Ibid.*, 101.

³⁶ *Ibid.*, 103.

³⁷ *Ibid.*

³⁸ *Ibid.*, 104.

³⁹ *Ibid.*

of doing both good and evil. Organizations should aim to design a system that makes being good as easy as possible. ... Doing so will never turn an organization full of humans into a host of angels, but it can help them to be as ethical as they are capable of being.’⁴⁰ Their articulation of the pillars of ethical culture is apposite and includes the following:

- *Explicit Values*: aimed at keeping ‘an organization’s values crystal clear in employees’ minds’;
- *Thoughts During Judgment*: aimed at keeping ethical considerations to the forefront when making decisions;
- *Incentives*: ‘aligning rewards with ethical outcomes is an obvious solution to many ethical problems’;
- *Cultural Norms*: aimed at creating ethical norms by focusing on ‘ethical beacons’ in the organization ‘who are putting the mission statement into practice or behaving in an exemplary fashion’.⁴¹

‘Ethics, by Design’ attempts to make being good as easy as possible which entails ‘attending carefully to the contexts people are actually in, making ethical principles foundational in strategies and policies, keeping ethics top of mind, rewarding ethical behavior through a variety of incentives, and encouraging ethical norms in day-to-day practices.’⁴² But without the right leaders possessed of appropriate skills, knowledge, and virtues, the best designed ethical organization can falter, as recent global financial history clearly demonstrates.

In an essay entitled ‘The Future of Leadership Development’ (2019), Mihnea Moldoveanu and Das Narayandas, present the rise of the personal learning cloud (PLC) as a good-news story for the present time. By providing highly successful learning in leadership that is personalized, socialized, contextualized, and authenticated, they argue that this is just the beginning as ‘PLC is proving to be an effective answer to the skills transfer gap that makes it so difficult to acquire communicative and relational proficiencies in traditional executive education settings.’⁴³ Education is important and business leaders must be equipped with the latest and best learning which PLC aims to provide while simultaneously posing significant challenges to the business schools. For all that, PLC is only one element, albeit a critically important one, in the complex panacea for business leadership. Even when an organization has a charismatic leader, one who sets the right tone at the top, providing an effective leadership model for the creation of an ethical organization, the task is extremely difficult due to the inherent imperfection of human nature. Thus, linking ethics and leadership will not result in the creation of the perfect ethical organization but it will, as the contributors to this volume demonstrate in myriad different

⁴⁰Nicholas Epley and Amit Kumar, ‘How to Design an Ethical Organization’, *Harvard Business Review* 97 (2019) 144–50 (150).

⁴¹*Ibid.*, 147–49.

⁴²*Ibid.*, 150.

⁴³Mihnea Moldoveanu and Das Narayandas, ‘The Future of Leadership Development’, *Harvard Business Review* (2019) 40–48 (46).

ways, help significantly in the realization of this goal. The present volume seeks, therefore, to contribute to a more adequate coalescence of ethics and business, for the mutual enhancement of business and society.

It is noteworthy that a clear similarity emerges between some of the key concerns expressed in our review of the treatment of business ethics in the *Harvard Business Review*, leadership, spirituality, corporate responsibility, ethics by design, personal learning cloud, the relationship between theory and practice, and contributions to the present volume. Some remarks on the question of spirituality and business are germane. In all parts of the work, questions of spirituality are raised. If at times, terms other than spirituality are used, including ‘wholeness’ and ‘integration’, a careful reading of the texts indicates that the intended meaning is, in many cases, neither vague nor soft. At the individual level, spirituality issues are often discussed under the heading of leadership (Benefiel, Dorr, Verstraeten, Power and McBrierty). It is also possible to think in terms of the ‘soul of the organization’ (Duska and Ragatz) and even to analyse the role of the organization within society. The treatment of the theme of spirituality and business constitutes a broadening of the field that is in some ways innovative; it requires ethicists and businesspeople to think holistically.

In a co-authored chapter, Gabriel Flynn, David Smith, and Mary Kirwan present a response to the coronavirus pandemic under three headings. Part one considers how the vision of ‘servant leadership’ articulated by Robert K. Greenleaf may assist leaders of business and state in the face of this global crisis. Part two addresses the large range of ethical issues which healthcare professionals, hospital management, and members of the pharmaceutical industry have to address in the wake of COVID-19. These include the allocation of scarce resources, the care of frontline healthcare workers, and the sensitive and complex ethical dilemmas confronting medics, scientists, and pharmaceutical experts engaged in the search for a vaccine to counteract the coronavirus disease. Part three presents a critical analysis of the use of law in the context of the COVID-19 pandemic and articulates ways in which core values can be protected in emergency law.

Domènec Melé’s contribution entitled ‘Business Ethics: Europe versus America,’ traces the development in business ethics and such related fields as Corporate Social Responsibility (CSR) starting with North America and Europe. ‘In this review, several factors related to business ethics will be considered, comparing Europe and the USA, namely, cultural environment, business activities, public authority, civil society and the academy.’ Melé concludes ‘by discussing how interdependence of the above-mentioned factors, as well as the cultural and political legacies in Europe and America can give a reasonable explanation of the differences.’ The remaining contributions to the volume are divided into three parts.

Part I examines the role of business ethics at the level of individual managers. It opens with Edwin M. Hartman’s chapter entitled ‘Socratic Questions and Aristotelian Answers: A Virtue-based Approach to Business Ethics’. He poses important questions: How do we decide what businesspeople ought to do? What is right and what is wrong in business? He argues that an Aristotelian approach to business ethics shows how we can answer these questions. Hartman’s salutary advice for the

leaders of business is that ‘ethics is neither arcane nor certain. Being ethical is primarily a matter of being a person of good character, with virtues, emotions, values, and practical intelligence to match.’

Gabriel Flynn contributes to a vision for leadership in business based on a recovery of virtue. His essay draws principally on the writings of the classical philosopher Aristotle and of the contemporary philosopher Josef Pieper. Flynn poses a key question. ‘Why is it problematic to live a virtuous life?’ His suggestion that Pieper’s *Leisure: The Basis of Culture* (1952) provides the most effective antidote to the compulsive busyness of modern western business-dominated, materialist culture, if acted upon by leaders of business, could help transform work and family by recourse to beauty and contemplation. Flynn concludes that virtue provides a message of hope and attempts to find plain language to articulate its value to those engaged in business or concerned with the formulation of government policy. Flynn’s recently published paper ‘The Irish Banking Crisis (2008–2016): An Ethical Analysis’, is a corollary to his chapter here.⁴⁴

James G. Murphy, in a revised chapter entitled ‘People in Business: Context and Character’ asks a pertinent question ‘what have business and ethics to do with each other?’ He asserts that ‘the differences may be of a complementary kind,’ and more importantly, ‘that business is far more grounded in ethics than is often realized.’ Murphy argues that the ‘marginal status of business ethics, even while accompanied by lip-service for public consumption, may in part be due to misunderstanding ethics. [...] The executive who secretly thinks business ethics a wasteful irrelevance (except for emergencies) has forgotten what makes a company successful.’ This essay shows that virtue ethics is a first step in the direction of a more adequate response to the leadership issue. Murphy concludes that ethics should be about character formation and not a dilemma-solving exercise.

Brian Leavy’s revised chapter ‘Inspirational Leadership in Business and Other Domains,’ proposes a contextual perspective on leadership which he claims ‘has important implications for the kind of education that should serve top leaders best in their ongoing development.’ Leavy argues that ‘deeper insight can be gained into the nature of inspirational leadership at the institutional level by viewing it as a dynamic process, the outcome of which is shaped by three main elements, context, conviction and credibility.’ His most important questions are posed in a rather implicit way: In today’s changed society, characterized by a dearth of ethical leadership, are the leaders of business also the leaders of society? Given the contextual character of strategic leadership: Is an inspirational leader an ethical leader, someone who changes society? The chapter concludes by identifying a number of developmental priorities for individuals aspiring to be institutional leaders that are linked to this perspective.

Johan Verstraeten, in a chapter entitled ‘Responsible Leadership beyond Managerial Rationality: The Necessity of Reconnecting Ethics and Spirituality’, proposes a view of leadership that is not only transactional but also transformative.

⁴⁴ See Gabriel Flynn, ‘The Irish Banking Crisis (2008–2016): An Ethical Analysis’, *Business and Professional Ethics Journal* 38 (3): 297–319 (2019) available at <<https://philpapers.org/rec/FLYTIB>> Accessed 23 February 2020.

Such leadership requires the capability to motivate people to ‘transform their own self-interest into the interest of the group through concern for a broader goal.’ According to Verstraeten, ‘it has never been more difficult to develop authentic leadership as a consequence of the fact that our late-modern culture hinders or sometimes even blocks the development of leadership qualities.’ The main reason for this, in his view, ‘is the artificial separation between ethics and spirituality.’ Verstraeten seeks to ‘clarify some of these cultural obstacles and describe how spirituality can generate the basic conditions for the moral responsibility of leaders.’

Margaret Benefiel seeks to remedy flawed decision-making processes used by senior business managers by linking discernment and leadership. While recognizing that leadership is fraught with danger, not least because half of decisions made in organizations fail, Benefiel argues persuasively that spiritual discernment helps to keep a leader operating to full potential. The chapter explores the practice of spiritual discernment and how it can help a leader to make more ethical and effective business decisions.

Paul T. Harper responds to a critical question of Richard Rorty “Is Philosophy Relevant to Applied Ethics?” By analysing Rorty’s ideas, Harper provides his own answer to this question. His approach differs from Rorty’s by specifying the contributions of specific philosophies and philosophers rather than stressing the interdisciplinary nature of good theoretical inquiry. Unhappy with the interdisciplinary approach to moral theory, Rorty ultimately advocates the approach of the philosopher Michel Foucault. Through a consideration of Foucault’s characterization of the uses of the critical method and the critical outlook, Harper demonstrates that critique allows for a broader and clearer pedagogical platform for moral development and leadership cultivation. Fully aware of the responsibility of ethicists to provide intellectual resources that help businesspeople to identify and then work through the moral challenges of today’s commercial environment, Harper concludes his revised chapter by offering one kind of pedagogy that he believes would serve to reinvigorate business ethics and make ethical discourse more of a reflection of contemporary concerns.

Part II, in a broadening of the field, considers how business ethics operates at the organizational level in companies and corporations. Daryl Koehn, the Wicklander Chair in Professional Ethics at DePaul University, Chicago in a chapter entitled ‘Ethical and Leadership Challenges by Organizational Culture Type’ asserts that few researchers have investigated in a systematic way corporate or organizational culture types and their relationship to ethics and leadership. She seeks to fill this critical gap in current research by drawing upon one well-known systematic approach to culture assessment with a view to identifying the different ethical and leadership challenges faced by leaders within corporations characterized by various types of culture. By recourse to the Organizational Culture Assessment Instrument (OCAI-Online 2019) that has been widely used by corporations and consultants to identify four dominant organizational culture types. Koehn concludes that OCAI ‘can also be productively used (with some limitations and caveats) to identify ethical strengths and weaknesses and challenges and opportunities leaders may face in each of the four dominant cultures. Having identified these elements, leaders and

employees in general are potentially better positioned to build upon advantage and to anticipate and then address incipient challenges.'

Stephen Bloomfield in a chapter entitled 'The Virtuous Triangle: Ethics, Governance, and Leadership' presents the case for a 'virtuous triangle' involving ethics, governance, and virtuous leadership as the essential components for successful companies. He views leadership as always being the weak link in the 'virtuous triangle' and proposes a new definition of corporate governance that 'unites leadership with governance and ethics on the point of departure into a new form of economic activity where customers are also raw material and where the problems of economic and environmental sustainability are paramount.'

Inspired by John Bogle's book *The Battle For The Soul Of Capitalism*, Ronald Duska, sometime Professor of Ethics at the American College, USA and Julie Anne Ragatz, in a chapter entitled 'How Losing Soul Leads to Ethical Corruption in Business' seek to address the question of corruption in business as the loss of soul. They pose an intriguing question: How would Aristotle analyze what is going on in the scandalous behavior of business in the twenty-first century? Their response is very simple: 'business has lost its soul.' In a statement that should be obligatory reading for all business ethicists, Duska and Ragatz write: 'The first dogma of the church of capitalism becomes the mantra: "The primary and only responsibility of business is to maximize shareholder wealth." Business is viewed primarily as a means to getting wealth.' The most deleterious result of widespread belief in this dogma throughout the business community is that 'it creates a sense that there are no limits. Because there is never enough and the end of wealth accumulation justifies any means, there is no limit on the means used to accumulate the wealth except those forced on one by the law, and this limitation is circumscribed as much as possible.' Enron, which is not unique, is analysed as an example of this type of corruption.

David Smith, Associate Professor in Medical Ethics and Law at the Royal College of Surgeons in Dublin, and Louise Drudy in a chapter entitled 'Corporate Culture and Organizational Ethics' take up the question of corporate culture and organisational ethics in the Irish health sector. In a statement which highlights the critical role of leadership in business and health, Smith and Drudy remark: 'It is largely in how people treat other people within the company, the manager, the secretary, retailers and so on, that the ethical climate of the business is set.' A comparison is made between business norms and professional health care norms of practitioners in health care institutions. The authors offer a review of the principles which govern business ethics and health care ethics; this demonstrates a number of common features. 'But more importantly they also highlight the potential for diversity and conflict. Business ethics tends to put the aim of the company or organisation as primary while health care tends to place the emphasis on the individual patient.' In health care, 'organisational ethics is the integration of patient values, business ethics and professional ethics. Organisational ethics must work to integrate these perspectives into a unified organisational programme that provides and sustains a positive ethical climate within each health care organisation. To achieve this, the organisation must institute processes to ensure that this definition is understood and advanced by all in the organisation. One of the ways of ensuring that this process of integration is

activated is through the establishment of Clinical Ethics Committees.’ Many health care organizations are now using this sort of instrument. Another option to cope with these dilemmas is through the appointment of an ethics officer.

Paul Whysall, Professor Emeritus of Retailing at Nottingham Business School, Nottingham Trent University UK, in an article entitled ‘Values in the marketplace: what is ethical retailing?’ assesses the role of ethics in the retail sector, an area that is pivotal for modern society. Whysall’s essay poses four key questions: Why have ethical issues become prominent in retailing at this particular time? What philosophical/conceptual bases exist for addressing ethical issues in retailing? Are ethical issues and concerns currently arising in retailing addressed by those bases? How, then, might we conceptualise ethics in retailing? This essay presents a significant challenge to small businesses and multinational corporations for the implementation and enforcement of an adequate ethics. It is interesting to note that Whysall gives a perennial leadership role to consumers in the ‘pursuit of excellence, a search for virtuous retailing.’ As he concludes: ‘if we consumers want ethical retailing, we may also have to realign our own shopping motivations and behaviours.’

Part III examines how business shapes society and is, in turn, influenced by the demands and expectations of society. Patricia H. Werhane, Professor Emerita at the University of Virginia and De Paul University, in a chapter entitled ‘Embedded Leadership’ explores a model for twenty-first century leadership. She asserts that the ‘embedded leadership’ model is appropriate to the complex character of global economies. Beginning with the assumption that notion(s) of leadership are socially constructed and thus can be reformulated to fit changing political and economic environments, she argues that ‘underlying the present global chaos (Brexit, Iran nuclear deal meltdown, other nuclear threats, human trafficking, trade embargos, etc.) is part of a larger macro complex interacting framework that demands new thinking to frame our models of leadership.’ She concludes with an urgent call for change in structures of leadership. ‘Unless we change our leadership models to fit the global 21st century knowledge-framed economy, we will not be able adequately to face these and new issues that will continue to plague our planet. One such viable model is that of embedded leadership.’

In the 1990s, business ethics seemed to become much more popular, with courses, books and journals proliferating, and bigger companies often hiring their own in-house ethicist. At the 2003 World Economic Forum at Davos, Switzerland, corporate social responsibility (CSR) was a major theme, with almost all participants expressing total, almost religious, devotion to the concept.⁴⁵ Sandra Waddock’s significantly revised chapter entitled ‘Corporate Citizenship: The Dark-Side Paradoxes of Success,’ explores the paradox of corporate citizenship. In other words, it considers ‘the paradoxical dark underbelly created by strategic success in corporations and their efforts to implement voluntary corporate social responsibility

⁴⁵ Reported in ‘Two-faced capitalism’, *The Economist* (22/01/2004). For a CEO’s critique of CSR, see Ian Davis, ‘The biggest contract’, *The Economist* (26/05/2005), also Justin O’Brien (ed.) *Corporate Business Responsibility* (London: Routledge, 2017); first published by Ashgate Publishing, 2009.

initiatives to demonstrate their good corporate responsibility/responsibility'. Her exploration addresses the tensions of corporate responsibilities that are created not when there are crises, scandals, or misdeeds, but when 'the very success of the company's strategy, doing what it is expected to do, is itself the source of concern. The problematic aspects of success that come about when a company is doing what is expected suggest the need for a massive of corporate purpose and responsibilities in the context of a transformed economic paradigm.'

Robert Audi, John A. O'Brien Professor of Philosophy at the University of Notre Dame, in a chapter entitled 'The Marketing of Human Images as a Challenge to Ethical Leadership' addresses an area of profound concern for business ethics because it affects children, women and the environment. As he remarks: 'The rapid spread of visual media is enormously influential in the contemporary world. The recent increase in access to the internet heightens the problem of how to bring ethics to bear in guiding this media influence, especially in marketing. Nothing is ethically more important in marketing than the human images communicated with goods and services. This holds even where what is marketed is inanimate.' Audi asks: 'Why should marketing be a special challenge for ethical leadership in business and a major topic in business ethics?' 'The answer, in large part, is that marketing influences a great deal of human conduct and, indeed, often influences it *subconsciously*.' He advocates a holistic view of marketing and production 'not just in a piecemeal fashion that presupposes a focal target for every product or service.' He also makes a further important distinction important 'between goods and services that need a representation of a person for their marketing and those that do not.' The concept of leadership elaborated by Audi is defined in terms of influence rather than competence. The challenge for business leaders, especially CEOs, but also at lower levels 'is to keep profits strong while doing ethical marketing.' Audi makes important connections between marketing, citizenship and society: 'The obligations of ethical marketing are a kind of obligation of citizenship itself. Major companies are important elements in society, and their leadership is important for the culture and well-being of the societies they pervade.'

Regina Wentzel Wolfe, Professor Emerita of Catholic Theological Ethics at Catholic Theological Union, Chicago, USA, presents a chapter entitled 'The Calvert Women's Principles: Catalyst for Promoting Gender Equity and Empowerment of Women in the Workplace'. She acknowledges that the question of the marginalization of women in the global economy has been a long-standing concern of many and varied groups ranging from intergovernmental bodies such as the United Nations (UN) and World Bank to multinational enterprises (MNEs), trade unions, nongovernmental organizations (NGOs), and academic institutions. The chapter examines some of the areas being addressed and provides a context for understanding the seriousness of the problem, which initiatives such as the Calvert Women's Principles (CWPs) and the Women's Empowerment Principles (WEPs) attempt to redress. These include the feminization of poverty, the gender wage gap, and barriers to women's career advancement.

Oliver F. Williams, Associate Professor of Management and Academic-Director of the University of Notre Dame Center for Ethics and Religious Values, analyses

the Global Compact in a chapter entitled ‘The United Nations Global Compact: What Did it Promise?’ He recognizes that many scholars have identified an important issue for the global economy: Providing some mechanism for requiring assurance that environmental, social, and corporate governance information provided by a business is accurate and objective. He asserts that where some have gone wrong is in trying to change the mission of the United Nations Global Compact (UNGC). From its inception on 26 July 2000, the UNGC has been clear that its mission is not to provide such assurance. This article first outlines the background for the historic announcement of the UNGC by the then Secretary-General of the UN, Kofi Annan. Then a summary of the major criticisms of the initiative is provided with a focus on the Sethi-Schepers article. Finally, he argues that the mission of the UNGC, to gain consensus in the global community on the shared values and moral norms that will guide the global economy, is being accomplished, although it is a work in progress.

David Begg, former Secretary General of the Irish Congress of Trade Unions (ICTU), in a paper entitled ‘The Ethics of Beargarden’ articulates a critique of neo-liberalism prevalent in the 1980s and 1990s when the creation of great wealth coincided with a corresponding great inequality and the consequent separation of economics from ethics. Ethical failure and high-profile scandals resulted in the emergence of a complex regime of corporate governance beginning with the Cadbury Report in 1992. The new regulatory framework for business proved to be a necessary, but insufficient, incentive for ethical behaviour. This unhappy situation prompts Begg to ask whether an ethical model of capitalism is possible at all. Based on a consideration of the Irish case and with regard to post-Brexit sustainability, he proposes a new more ethical development model closer to that of the Nordic small open economies. While this ‘will not be an uncomplicated transition but in the long run, it will give us a more ethical and sustainable variety of capitalism.’

Cornelius P. Power, former Economic Policy Director with the Irish Business and Employers Confederation (Ibec), and Vincent J. McBrierty, Professor Emeritus of Physics & Fellow of Trinity College, Dublin, in a wide-ranging chapter entitled ‘Public Policy: The Defining Global Parameters of Society and Science’ investigate ‘some of the parameters of societal organisation, scientific advances, including in information and communications technology, and spirituality.’ They assert that ‘the rapid advances in information and communications technology, with a global footprint, challenge the human capacity for adherence to moral principles in ethical policy decision-making, and require matching governance structures at global level.’ Addressing the evolution and operational delivery of meaningful ethical public policy, Power and McBrierty see boundless opportunities for the new age of technology to contribute to humanity if science and spirituality engage in fruitful collaboration.

Donal Dorr, an expert in Catholic social thought, in a revised chapter entitled ‘Alternative Business Ethics: A Challenge of Leadership’ examines how spirituality and religions play a part in a new view of ethics and leadership. While in the Western world the understanding of business has emerged over the past couple of hundred years is one which ‘assumes that self-interest is the principal motive for action.’ Challenging ‘the apparent impregnability and inevitability of the present business

ethos' as 'grossly immoral', Dorr also sees leadership as the key to change. 'In the present situation, there is an obvious need for leadership through an *empowerment* of people to take responsibility for what is done in their name by politicians and officials. Need, too, for the gentle, persuasive *nudging* mode of leadership which can sometimes be more effective in bringing about change than attempts to push people in directions which they are not yet ready to take. But, most of all, there is a crying need for *inspirational* leadership—for the kind of creative actions which catch people's imagination, and for the transparency and raw courage which can convince others of one's sincerity. A key aspect of this inspirational leadership is the gift of communication.' Coupled with such powerful inspirational leadership in the great task of humanizing business is 'a holistic spirituality which can provide valuable insight about the kind of changes that are required. It can also offer inspiration and energy to those who work for change.'

In a chapter entitled 'Implementing Corporate Social Responsibility Initiatives: A Change Approach', Johan Coetsee, Henrieta Hamilton Skurak, and Patrick C. Flood provide a contribution to sustainable organisational change. They note the cold fact that approximately 60–70% of all change initiatives fail to reach their objectives, achieve only partial success, or in the worst-case scenario, make the situation worse. It seems that despite the numerous change models, approaches and methodologies available in the literature, leaders do not appreciate adequately what is required in guiding their organisations through change. In other words, leaders continue to lack a clear understanding of change, its antecedents, its processes or the ability to engage employees in change initiatives. This chapter does not consider the different types of corporate social responsibility (CSR) organisational activities or CSR strategy formulation, but views CSR as a change process i.e. how to implement CSR activities using a change management lens.

Alan J. Kearns's chapter is based on a primary source in all ethical discourse, namely, the New Testament. From there, he draws on the concept of stewardship as a form of leadership in the present-day world. The chapter outlines key features of stewardship theory, the etymology of stewardship as a concept, and some of its biblical and theological aspects. The chapter then turns to the story of the unjust steward who is commended for his prudence. It is contended that this constructive lesson about the affirmation of the normative quality of prudence with resources in a time of crisis – despite the unethical context of dishonesty – offers an interesting position for the continuing reflection on leadership and business ethics. Using the categories of prudence to refer to 'responsible' and honesty to refer to 'good', Kearns argues that with the present demand to address climate change, the environment and sustainability, prudent (responsible) rather than honest (good) leadership may become the prime focus for reflection on ethics in business and leadership as a form of stewardship.

Maureen King's chapter entitled 'Doing The Right Thing: It is in our power to act and not to act' explores the concept of 'leadership and business ethics' through the evolution of privacy laws in the digital age. She attempts to strike a balance between the protection of privacy and the fight against serious crime. King contends that business leaders are faced with an increasingly volatile, uncertain, complex,

and ambiguous (VUCA) environment, particularly in the business activity of processing personal data. The chapter assesses how the development of privacy laws and regulations, aimed at enhancing the privacy rights of individuals, presents business leaders with complex ethical challenges. Their task of balancing the citizen's right to privacy and providing assistance to law enforcement agencies in combating serious crime is particularly complex in the environment of telecommunications service providers with new challenges for global technology companies. This rapidly evolving environment will see all organisations subjected to enhanced regulation and businesses will, therefore, be required to lead in a new way. This chapter also outlines the evolution of privacy laws in Ireland with specific reference to retention of and access to telecommunications data and aims to demystify the General Data Protection Regulation (GDPR), to examine a landmark privacy case *Graham Dwyer vs The Commissioner of An Garda Síochána* (the Irish Police Force). King's timely contribution demonstrates the importance of balancing competing rights, the role of Chief Ethics Officers, and proposes a new social contract for the digital age.

In the final analysis, no new model of leadership will be successful unless it can overcome the confusion and bewilderment of the present age. In this regard, Rana Foroohar's award-winning book *Don't Be Evil: The Case Against Big Tech* (Penguin, 2019) should be essential reading for parents, teachers, and leaders of business and society.

The issue is that periods of great technological change are also characterized by great disruption, which needs to be managed for the sake of society as a whole. [...] The challenge for us today is figuring out how to put boundaries around a technology industry that has become more powerful than many individual countries. If we can create a framework for fostering innovation and sharing the prosperity in a much broader way, while also protecting people from the dark side of digital technologies, then the next few decades could be a golden era of global growth.⁴⁶

⁴⁶ Rana Foroohar, *Don't Be Evil: The Case Against Big Tech* (Penguin: London, 2019), xx–xxi.

Chapter 2

Leadership, Ethics, and Law: A Response to the Coronavirus Pandemic



Gabriel Flynn, David Smith, and Mary Kirwan

Abstract This chapter seeks to provide a response to the COVID-19 emergency in the context of leadership, business ethics, and law. All emergencies provide opportunities for leadership. Since the emergence of the pandemic, nations and governments have been concerned, in the first instance, for the health and wellbeing of their citizens. The chapter presents a response to the coronavirus pandemic under three headings. Part one considers how the vision of ‘servant leadership’ articulated by Robert K. Greenleaf may assist leaders of business and state in the face of this global crisis. Part two addresses the large range of ethical issues which healthcare professionals, hospital management, and members of the pharmaceutical industry have to address in the wake of COVID-19. These include the allocation of scarce resources, the care of frontline healthcare workers, and the sensitive and complex ethical dilemmas confronting medics, scientists, and pharmaceutical experts engaged in the search for a vaccine to counteract the coronavirus disease. Part three presents a critical analysis of the use of law in the context of the COVID-19 pandemic and articulates ways in which core values can be protected in emergency law.

Keywords COVID-19 · Pandemic · Emergency law · Core values · Servant leadership · Healthcare professionals · Hospital management · Complex ethical dilemmas · Leadership

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Introduction

Coronaviruses are a type of virus. There are many different kinds, and some cause disease. A newly identified coronavirus, ‘severe acute respiratory syndrome coronavirus 2’ (SARS-CoV-2) has caused a worldwide pandemic of respiratory illness, called COVID-19. In a relatively short period of time, it has changed the world dramatically, perhaps forever.¹ In an important breakthrough in the fight against SARS-CoV-2, the pharmaceutical giant Pfizer Inc (NYSE: PFE) and the German company BioNTech (Nasdaq: BNTX), in a joint news release, on Monday 9 November 2020, announced that their mRNA-based vaccine candidate, BNT162b2 ‘demonstrated evidence of efficacy against COVID-19’ based on the first interim efficacy analysis ‘conducted on November 8, 2020 by an external, independent Data Monitoring Committee from the Phase 3 clinical study.’² Hailed by Pfizer Chairman and CEO, Dr Albert Bourla, as ‘a great day for science and humanity’, there is now new hope for those who are ill, and for society, an expectation of a quicker than expected return to normal. But much remains to be done with Europe and the USA still experiencing record levels of newly confirmed cases of COVID-19 and serious outbreaks occurring in North Africa, India, and South America. In addition, there are regulatory and logistical challenges to be surmounted in order to supply the new vaccine in the requisite volumes to the people and places where it is most urgently required in the world. The same could be said for all the other vaccines currently in development.

¹ See World Health Organization (WHO), ‘Naming the coronavirus disease (COVID-19) and the virus that causes it’, available at <[https://www.who.int/emergencies/diseases/novel-coronavirus-2019/technical-guidance/naming-the-coronavirus-disease-\(covid-2019\)-and-the-virus-that-causes-it](https://www.who.int/emergencies/diseases/novel-coronavirus-2019/technical-guidance/naming-the-coronavirus-disease-(covid-2019)-and-the-virus-that-causes-it)>; see also Mark Cibort, ‘5 ways COVID-19 Changed Leadership Forever’ in Inc. <<https://www.inc.com/mark-cibort/five-ways-covid-19-changed-leadership-forever.html>> See further, ‘Real-time Assessment of Community Transmission’ (REACT). This is a programme commissioned by the Department of Health and Social Care in England involving scientists and clinicians at Faculty of Medicine, Imperial College, London. ‘REACT 1, Round 6, Interim Report’, published 29 October 2020), found as follows:

‘The co-occurrence of high prevalence and rapid growth means that the second wave of the epidemic in England has now reached a critical stage. Whether via regional or national measures, it is now time-critical to control the virus and turn R below one if further hospital admissions and deaths from COVID-19 are to be avoided.’ Available at <<https://www.imperial.ac.uk/medicine/research-and-impact/groups/react-study/real-time-assessment-of-community-transmission-findings/>>

Laura Coroneo, Fabrizio Iacone, Alessia Paccagnini and Paulo Santos Monteiro, ‘Testing the predictive accuracy of COVID-19 forecasts’, Department of Economics and Related Studies, University of York, UK, available at <<https://www.york.ac.uk/media/economics/documents/discussionpapers/2020/2010.pdf>>

See also, ‘Immune response in COVID-19: A review’, *Journal of Infection and Public Health*, 13.11 (2020), 1619–29, DOI: <<https://doi.org/10.1016/j.jiph.2020.07.001>>

² <<https://www.pfizer.com/news/press-release/press-release-detail/pfizer-and-biontech-announce-vaccine-candidate-against>>

The present chapter, in three parts, presents a response to the coronavirus pandemic under three headings. Part one considers how the vision of ‘servant leadership’ articulated by Robert K. Greenleaf may assist leaders of business and state in the face of this global crisis. Part two addresses the large range of ethical issues which healthcare professionals, hospital management, and members of the pharmaceutical industry have to address in the wake of COVID-19. These include the allocation of scarce resources, the care of frontline healthcare workers, and the sensitive and complex ethical dilemmas confronting medics, scientists, and pharmaceutical experts engaged in the search for a vaccine to counteract the coronavirus disease. Part three presents a critical analysis of the use of law in the context of the COVID-19 pandemic and articulates ways in which core values can be protected in emergency law.

COVID-19: What Servant Leadership Can Teach

How Pandemics Change History

Ian Goldin and Mike Mariathasan have traced the history of pandemics and the lessons that should be adduced from them.³ As the acclaimed virologist and Director of the London School of Hygiene and Tropical Medicine (LSHTM), Professor Peter Piot,⁴ remarks: ‘We have no vaccine. All we have is medieval ways of containment: isolation, quarantine, contact tracing.’⁵ In a message to the ‘Coronavirus Global

³ See Ian Goldin and Mike Mariathasan, *The Butterfly Defect: How Globalization Creates Systemic Risks and What to Do about It* (Princeton, NJ: Princeton University Press, 2016), Chapter 6: ‘Pandemics and Health Risks’, 144–67 (144–47). They comment: ‘Although globalization has brought immense health benefits, it has also led to a number of escalating threats to health. Pandemics, a result of increasing globalization, can have profound and potentially catastrophic systemic consequences. [...] Many experts believe that it is a question of when, not whether, such events will occur. It is for this reason that the study and prevention of pandemics is so vital to safeguarding all world systems.’ See further, Centers for Disease Control and Prevention, ‘Influenza (flu)’, available at <<https://www.cdc.gov/flu/pandemic-resources/1918-pandemic-h1n1.html>>

The 1918 Pandemic (H1N1 virus) / Spanish Flu caused the deaths of an estimated 50 million people while a further 500 million or one third of the world’s population became infected with the virus.

⁴ Professor Piot was the founding Executive Director of the Joint United Nations Programme on HIV/AIDS (UNAIDS) and Under Secretary-General of the United Nations from 1995 until 2008. He is special advisor to the President of the European Commission Ursula Von der Leyen and is also a member of the scientific advisory panel that provides the Commission with recommendations in response to the COVID-19 pandemic; including policy measures for addressing its long-term consequences.

<<https://www.lshtm.ac.uk/newsevents/news/2020/professor-peter-piot-appointed-special-advisor-president-european-commission>>

⁵ David Pilling, ‘Ebola co-discoverer Peter Piot on how to respond to the coronavirus’ *Financial Times*, 28 February 2020, <<https://www.ft.com/content/de0a7c9e-56ff-11ea-a528-dd0f971febbc>>

Response Initiative' on 4 May 2020, Piot outlined what he considers necessary in order to overcome the virus. 'To end this pandemic, we will need to bring together the very brightest minds across academia, industry, economics, technology because this pandemic is not going to be over anywhere until it is over everywhere.'⁶ He insists that the world needs resources, proper co-ordination, and life-saving products as soon as possible. The disease has adversely affected, to varying degrees, the daily lives of practically all with grave consequences for business, medicine, health-care provision, education, industry, and travel on a global scale.⁷ In addition, with the search for a vaccine to counter COVID-19 at fever pitch, the research information and documentation on the disease are subject to constant and rapid change.⁸

The disease is a major threat to life and livelihood, as well as to the global financial system and national economies. COVID-19 was declared a pandemic by the World Health Organization (WHO) on 11 March 2020. As of 1 November 2020, there have been 45,942,902 confirmed cases of COVID-19, including 1,192,644 deaths, across 219 countries / territories as reported by the WHO.⁹ COVID-19 is 'the gravest crisis that Europe has faced since the Second World War. Even at this early stage, the implications are far more profound than those of the 2008 financial crisis.'¹⁰ In the USA the situation is also stark. The rate of infection continues to rise exponentially, with approximately 99,000 new cases per day.¹¹ J. Stephen Morrison and Anna Carroll of the Global Health Policy Center in Washington DC have described the far-reaching effects of pandemics with acuity: 'Pandemics change history by transforming populations, states, societies, economies, norms, and

See further, Nita G. Forouhi, 'Foreword' in Shailendra K. Saxena, (ed.), *Coronavirus Disease 2019 (COVID-19): Epidemiology, Pathogenesis, Diagnosis, and Therapeutics* (Singapore: Springer, 2020), vii–viii (viii). Dr Forouhi remarks: 'The current knowledge and understanding about COVID-19 are constantly unfolding, being updated and expanded though ongoing research efforts as well as learning by experience on a daily basis. [...] This is a time when professionals and agencies from all potentially relevant disciplines need to work in a concerted way, including those working in and outside the fields of virology and infectious diseases. It is in this spirit as an epidemiologist and public health physician that I applaud this current effort.'

⁶Professor Peter Piot, <<https://www.lshtm.ac.uk/newsevents/news/2020/professor-peter-piot-comments-halting-funding-who>>

⁷Peter Piot and others, COVID-19: Live Q & A, <<https://www.lshtm.ac.uk/newsevents/events/covid-19-live-qa-4-peter-piot-john-nkengasong-sarah-boseley>>; see also Sana Malik and Ali Rehmat, 'Pandemic, Economy and Response Mechanism: An Overview', *Sustainable Development Policy Institute* (2020), 'References' <https://www.jstor-org.dcu.idm.oclc.org/stable/pdf/resrep25830.9.pdf?ab_segments=0%2Fbasic_search_SYC-5462%2Fcontrol&refreqid=fastly-default%3A88ad5f3a42944d89c0f96732e8bb6dc9>

⁸In its *Annual Review 2020*, for the period September 2019 to August 2020, the UK's National Cyber Security Centre (NCSC) states that more than a quarter of all incidents to which it responded were related to COVID-19, available at <<https://www.ncsc.gov.uk/files/Annual-Review-2020.pdf>>

⁹<<https://covid19.who.int/>>; also Johns Hopkins University Medicine 'Coronavirus Resource Center', available at <<https://coronavirus.jhu.edu/data/mortality>>

¹⁰Source: *New Statesman* (1996), 149.5512, 20 March 2020.

¹¹<<https://coronavirus.jhu.edu/data>>

governing structures.’¹² In addition to the tragic large-scale loss of life and widespread sickness, COVID-19 has resulted in dramatically elevated levels of unemployment and impoverishment, as well as the loss of confidence in governments, the political and business elites, and experts, as many citizens deem their respective responses to the crisis to be largely or wholly ineffectual.

In the context of acute uncertainty concerning the future, and a growing sense of fear and anger at the lack of a coordinated global response to the pandemic,¹³ as well as the prospect of a protracted period of destitution in some countries, an urgent question presents itself.¹⁴ How are the leaders of business and industry to respond to the global confluence of crises that have sprung from COVID-19? First, political and business leaders need to learn from others and to examine their underlying assumptions. Other lessons of the pandemic are to practice the art of listening and to exercise humility. The opening words of the *Rule of St Benedict*, a highly influential spiritual document written over 1500 years ago, are ‘listen carefully’.¹⁵ When humility is trodden upon by the global business and ruling elites whose high calling is to lead equably and to govern wisely in society and business, history invariably provides a corrective lesson. Ian Goldin, Professor of Globalisation at Oxford University, and his co-author, Mike Mariathasan, warn against grave threats to the global order. ‘A cosmopolitan or international perspective is under threat. The financial crisis of 2007/2008, terrorism, cyberattacks, perceptions of excessive migration, and the ever-present fear of pandemics are among the threats that are seen to arise from cross-border movements of people, goods, and services. Even virtual flows – through the internet – are seen as sources of threat.’¹⁶ Goldin and Mariathasan

¹² <<https://www.csis.org/analysis/which-covid-19-future-will-we-choose>>

¹³ In his encyclical letter ‘Fratelli Tutti: On Fraternity and Social Friendship’, (par. 7), given at Assisi, Italy on 3 October 2020, Pope Francis laments the lack of a unified approach to the pandemic among the nations and governments of the world. ‘Aside from the different ways that various countries responded to the crisis, their inability to work together became quite evident. For all our hyper-connectivity, we witnessed a fragmentation that made it more difficult to resolve problems that affect us all. Anyone who thinks that the only lesson to be learned was the need to improve what we were already doing, or to refine existing systems and regulations, is denying reality. It is my desire that, in this our time, by acknowledging the dignity of each human person, we can contribute to the rebirth of a universal aspiration to fraternity.’ See <http://www.vatican.va/content/francesco/en/encyclicals/documents/papa-francesco_20201003_enciclica-fratelli-tutti.html>

¹⁴ Brazil, which has the second highest recorded cases of deaths and confirmed cases of COVID-19 in the world, destitution is a present reality for many of her poorest citizens. According to Rio de Janeiro economist Marcelo Neri, there is an imminent risk that up to 15 million Brazilians will be reduced to dire poverty if the government cuts emergency COVID19 payments.

See <<https://www.reuters.com/article/health-coronavirus-brazil-unemployment-idINL1N2GZ1E6>>

¹⁵ Timothy Fry, (ed.), *The Rule of St. Benedict in English* (Collegeville, MN: Liturgical Press, 1982), 13.

¹⁶ Ian Goldin and Mike Mariathasan, *The Butterfly Defect: How Globalization Creates Systemic Risks and What to Do about It* (Princeton, NJ: Princeton University Press, 2016), XIV; see also Andrés Solimano, *A History of Big Recessions in the Long Twentieth Century* (Cambridge:

present a strong case for a unified, global approach to the management of pandemics, in order to prevent further instability in the world economy.

We face the real threats posed by systemic risks. Financial crises, pandemics, and cyber and other threats could overwhelm the ties that bind us. Deglobalization and slowing global growth would be the consequences. These would be disasters for the global economy, particularly for poor people, who are always the most vulnerable. Everyone stands to gain through better management of systemic risk.¹⁷

It is incontrovertible that the rapid expansion of the earth's population combined with a corresponding growth in urbanisation has resulted in more and more people living in ever closer proximity, thus greatly increasing the risk of contagion and pandemics. Citizens of all nations should be concerned to avoid the 'butterfly effect' since as Goldin and Mariathasan remark: '[T]he fluttering of a butterfly's wings in Brazil can cause a storm in the United States.'¹⁸ Today, the entire world is experiencing, to varying degrees, the 'butterfly effect' of COVID-19, with its genesis in China. Andrés Solimano, an expert on globalisation, is less than optimistic about the future of the world's economy.

[T]here is an increasing concentration of financial assets and productive capital in the hands of small economic elites that wield great economic and political power inimical to a genuine democracy. Still, it is likely that the world economy and/or particular economies in the coming years will fall again into cycles of recessions and crises, as debt overhang persists, and the limits to fiscal and monetary policies to counteract adverse shocks and destabilizing forces remain intact.¹⁹

We argue that only character-inspired servant leadership can ensure appropriate solutions to the grave problems affecting health and the global economy at this juncture.

Cambridge University Press, 2020), 27. Solimano points to internal anomalies in the first wave of globalization in the period before World War I. 'The period from around 1870 to 1913 was accompanied by a liberal economic order with rising prosperity, although not evenly distributed within and across countries. [...] Economic historians label this period as "the first wave of globalization" in which the levels of trade openness and capital flow (relative to GDP or savings) exceeded those of the second wave of globalization that started in the 1890s. Nonetheless, the first wave of globalization was not free of its own internal contradictions. On one side, trade and capital market integration brought an enhanced diversity of goods and services and spurred productive dynamism. However, there was also a process of property and market concentration in productive and financial spheres and the formation of monopolies and oligopolies. In turn, the benefits of globalization were accrued unevenly between labor and capital, generating significant levels of inequality.'

¹⁷ Goldin and Mariathasan, *The Butterfly Defect*, XIV.

¹⁸ *Ibid.*, 80.

¹⁹ Andrés Solimano, *A History of Big Recessions in the Long Twentieth Century*, 199.

COVID-19: The Critical Socio-Economic Subtext

Without denying or understating the grave public health crisis that the COVID-19 pandemic has engendered, it is vital that those concerned with its management remain focused on its grave socio-economic implications. Consider the health service, critical to an effective medical response nationally and globally; it has become clear very quickly that the adequacy of health provision everywhere is directly dependent on the sustainability of national taxation revenue and its essential foundation, a strong, fully operational economy. The financial and economic subtext to the current crisis is, therefore, neither medical nor scientific so much as political and economic. As various national economies falter, a immense struggle for world dominance continues to unfold between the most powerful economies in the world. We turn now to a consideration of the contribution of servant leadership in a time of crisis.

Robert K. Greenleaf, whose name is synonymous with servant leadership, in his essay, ‘The Servant as Leader’, originally published in 1970 and revised in 2008, outlines his vision for a new style of leadership as follows:

A fresh critical look is being taken at the issues of power and authority, and people are beginning to learn, however haltingly, to relate to one another in less coercive and more creatively supporting ways. A new moral principle is emerging which holds that the only authority deserving one’s allegiance is that which is freely and knowingly granted by the led to the leader in response to, and in proportion to, the clearly evident servant stature of the leader.²⁰

The servant-leader must never forget that he/she is ‘servant first.’ Servants must first learn to listen before speaking. As Greenleaf opines: ‘Why is there so little listening?’ He urges all not to fear silence. ‘One must not be afraid of a little silence. Some find silence awkward or oppressive. But a relaxed approach to dialogue will include the welcoming of some silence. It is often a devastating question to ask oneself, but it is sometimes important to ask it—“In saying what I have in mind will I really improve on the silence?”’²¹ He identifies ‘foresight’ as the central ethic of leadership and failure by a leader in this domain may be viewed as an ‘*ethical* failure’ because ‘a serious ethical compromise today is sometimes the result of a failure to make the effort at an earlier date to foresee today’s events and take the right actions when there was freedom for initiative to act.’²² Greenleaf’s vision for leadership will be realised to the extent that it is received by leaders of character. Virtuous actions emanate from virtuous persons grounded in character. The actualisation of a virtue-inspired vision requires strong character-based leadership, an innate ability to learn from past failures, and an abiding commitment to justice. Further, virtue and character assume greater urgency today in the face of the COVID-19 pandemic

²⁰ Robert K. Greenleaf, ‘The Servant as Leader’, rev. edn. (Atlanta: GA: The Greenleaf Center for Servant Leadership, 2008), 11–12.

²¹ *Ibid.*, 19.

²² *Ibid.*, 27.

and the corresponding risk of a new and widespread shock to the world economy. An outstanding, all-encompassing question relating to the thorny issue of government-imposed societal management during the pandemic and the ensuing recovery phase requires urgent attention from business leaders, parliamentarians, and heads of government. The afore-mentioned leaders might reflect on valid responses to this question. How will the measures emanating from national governments, commonly perceived as oppressive or repressive, affect the changes imposed by the cyber world in which information- and communications-technology moved beyond the bounds of regulation, in the absence of global governance protocols?

COVID-19: An Analysis of the Ethical Issues

COVID-19 first appeared in Wuhan, a city in China, in December 2019. It is associated with acute respiratory illness, and clinical evidence indicates that a substantial proportion of patients become seriously ill, requiring respiratory support (e.g. oxygen, ventilation, etc.) and admission for intensive care treatment. As the pandemic took hold in different countries there was a fear that there would be a surge of infections and that the health systems would be unable to cope adequately with admissions to hospitals and intensive care facilities. This, therefore, raised a large number of important ethical questions for governments, economists, educators, religious leaders and healthcare professionals. Some of the most important ethical issues which healthcare professionals had to address were the allocation of resources, the care of frontline healthcare workers and the research that would be necessary to find medicines that could cure COVID-19 and the development of vaccines to vaccinate the populations against COVID-19.

Various international, national and professional bodies all started to issue ethical guidelines on the allocation of resources, protection of staff and research during the COVID-19 pandemic.²³ One of the first to emerge in Europe was produced by a group of Italian doctors entitled 'Clinical Ethics Recommendations for the Allocation of Intensive Care Treatments, in Exceptional, Resource-Limited

²³ The following are an example of the different guidelines issued. British Medical Association, CEPI Clinical Trials Policy, Council of Europe, the World Health Organisation, CPME Standing Committee of European Doctors, Council of Europe, Departments of Health in the United Kingdom and Ireland, European Group on Ethics in Science and New Technologies, the German Ethics Council, Hastings Center, Irish Medical Council, General Medical Council, Mexican Medical Council SAULD, National Health Service, NICE National Institute for Health and Care Excellence, Nuffield Council on Bioethics, New York State Task Force on Life and the Law New York State Department of Health, Royal College of Physicians, Royal College of Psychiatrists, Scottish Government, Spanish Position of the National Council of Ethics for the Life Sciences, UNESCO, States of Ohio and Kentucky – Adult Allocation Protocol – Allocation of Scarce Resources During a Public Health Emergency Event Protocol Name, Virginia and South Carolina Allocation Protocol, the Health Service Executive. Different medical schools such as the Royal College of Surgeons in Ireland also issued clear directives on how to treat patients during the COVID-19 pandemic.

Circumstances.’²⁴ Some of their recommendations were found to be highly controversial especially when they argued that ‘an age limit for the admission to the ICU may ultimately need to be set’. This appeared to be deliberately ageist. The other guidelines issued by the national, international organisations and professional bodies demonstrated a remarkable convergence in their recommendations.

A major challenge to be addressed was the healthcare professional’s duty of care for individual patients and the broader public health consideration of maximising the number of lives saved, and overall health gain, of the whole population. Faced with unprecedented demands, it was argued that clinicians may need to replace normal standards of care with ‘contingency standards of care’²⁵ until such point as the pandemic is determined to have been brought under control.

It was also important to recognise that in emergency and non-emergency situations, it is not ethically appropriate to offer intensive care to every patient, since intensive care will not provide benefit to some patients who are seriously ill or dying. Access to intensive care should generally be reserved for those patients in whom a good outcome may be expected (those who will most likely survive their acute illness with reasonable long-term status). In line with the principle of minimising harm, it was argued that it may be necessary to impose stringent restrictions on ICU admission during a pandemic to ensure that the available resources are used to achieve the best possible outcome at a population level. The focus on population health in a pandemic situation means that resources which could under normal circumstances have been used to prolong lives will have to be redirected to saving the lives of those who will be most likely to recover. One of the implications was that surgical operations which might require admission to ICU were cancelled. Any allocation procedure must be fair, clinically justified, transparent and documented.²⁶

It was recognised that while the specific factors utilised within a prioritisation protocol may vary (e.g. Sequential Organ Failure Assessment [SOFA]²⁷ scores, frailty scores), there are certain common and interconnected features, which should be considered as part of the decision-making process, including:

- the type and severity of the patient’s illness;
- the presence of comorbidities and frailty;
- the impairment of other organs and systems; and whether that impairment can be alleviated with intensive care treatment;
- the period of time the patient is likely to require intensive care treatment;

²⁴ SIAARTI, ‘Clinical Ethics Recommendations for the Allocation of Intensive Care Treatments, in Exceptional Resource-Limited Circumstances,’ available at <<http://www.siaarti.it/SiteAssets/News/COVID19%20-%20documenti%20SIAARTI/SIAARTI%20-%20Covid-19%20-%20Clinical%20Ethics%20Reccomendations.pdf>>

²⁵ Contingency standards of care involve providing the best possible care under the circumstances. This reflects the legal meaning of standard of care which speaks to what is reasonable in the circumstances.

²⁶ Department of Health, Ireland (2020), *Ethical Considerations Relating to Critical Care in the context of COVID-19*, available at <<https://www.gov.ie/en/publication/13ead5-ethical-considerations-relating-to-critical-care-in-the-context-of-c/>>

²⁷ <<https://www.mdcalc.com/sequential-organ-failure-assessment-sofa-score>>

- consideration of the patient's capacity to withstand the physical impact of intensive treatment (including mechanical ventilation); and
- long-term functional status should they survive;
- the patient's informed views on whether to undergo intensive therapies such as mechanical ventilation.

It was particularly important to emphasise that age should not be the sole determining factor, therefore the term "frailty" was used. Factors such as frailty or the existence of co-morbidities should only be considered relevant insofar as they will have an impact on the patient's potential to benefit from ICU admission and remaining survival time after discharge. If a single factor such as age was used this would result in unfair discrimination.²⁸

It was also important to point out that if a decision was made not to admit a patient to ICU then patients would be provided with other available and potentially beneficial forms of treatment. For example, in the context of COVID-19, other respiratory supports such non-invasive ventilation and oxygen. In cases where a patient is unlikely to recover, appropriate palliative and/or end-of-life care should be provided. It is very important that patients and their families are aware that if a decision was made not to admit the patient to ICU that he/she would still be cared for and would not be abandoned.

Further, it was also considered essential that clinicians would, where possible, discuss with patients and their families the possible risks and benefits associated with intensive care in advance of, or upon admission to the ICU. The patient's wishes with regard to emergency treatment (e.g. Cardio Pulmonary Resuscitation – CPR) and intensive care should be ascertained and documented, especially for individuals belonging to a high-risk group. It should be recognised that not all patients would want to be ventilated in an intensive care unit. A patient's wishes should be ascertained in discussion with the patient or his/her family. It is also possible that the patient might have an advance healthcare directive in which his/her views on CPR etc. may be found. These would need to be respected.

A discussion with the patient or his/her family should take place prior to admission to ICU. It would be necessary to explain that in a pandemic situation where resources are severely limited due to increased demand, critical care will be provided on the premise that continuation of treatment will be based on regular assessments of the patient's response to treatment. If a patient's condition or prognosis deteriorates, or if it does not improve following admission, decisions regarding the continuation or potential withdrawal of intensive treatment will need to be made.

Hospitals were encouraged to develop decision-making tools. These would ensure that a consistent, standardised and ethically justified approach was taken in the decision-making process. While a clinical decision would still need to be made for each patient, a protocol would help to underpin the rationale for that decision.²⁹

²⁸ Department of Health, Ireland (2020), *Ethical Considerations Relating to Critical Care in the context of COVID-19*.

²⁹ Ibid.

They were encouraged to take the following ethical principles into consideration in developing their decision-making tool.

Minimising Harm: A foundational principle of public health ethics is the obligation to protect the public from serious harm. Harm is a broad concept, but includes physical, psychological, social and economic harm. In a pandemic, restrictions to individual liberty (e.g. asking people to self-isolate), access to services (e.g. cancellation of elective procedures/out-patient clinics) or service areas (e.g. limiting visitors to hospitals/residential facilities), as well as the imposition of infection control practices (e.g. restricting public gatherings), may be necessary to protect the public from harm. Where such restrictions are being considered, decision-makers should provide reasons for the public health measures to encourage compliance and should establish a mechanism to review decisions.

Proportionality: Proportionality requires that restrictions to individual liberty and measures taken to protect the public from serious harm should not exceed what is considered necessary to address the actual level of risk to, or critical need of, the community.

Solidarity: Solidarity calls for a collaborative approach to pandemics that sets aside conventional ideas of self-interest or territoriality at every level of society, e.g. between individuals, healthcare institutions, governments and nations.

Fairness: In a pandemic situation, when healthcare resources may be in short supply, available resources should be distributed fairly, effectively, and in ways that recognise the moral equality of all persons.

Duty to Provide Care: The duty to provide care and alleviate suffering is inherent to all codes of ethics and professional standards for healthcare professionals. Healthcare professionals will need to weigh the demands of their roles against other competing obligations e.g. their own health and the health of their families.

Reciprocity: Measures to protect the public good are likely to impose a disproportionate burden on healthcare workers, patients and their families. Reciprocity requires that society supports those who face a disproportionate burden in protecting the public good and takes all necessary steps to minimise the risks and burdens in as far as possible.

Privacy: Individuals have a right to privacy and confidentiality with respect to their health information. However, a person's right to privacy is not absolute and it may be necessary, in extenuating circumstances, to restrict this right. Any disclosure of personal information to a third party must be limited to pertinent information that is absolutely necessary to avoid serious harm to the broader population, and there is no less intrusive means to protect public health.³⁰

For healthcare professionals, decisions about who to admit or not to admit to ICU are challenging both clinically and psychologically; those responsible for assessing patients and making triage decisions must have proper support in allocating scarce, lifesaving resources. While intensive care staff have considerable

³⁰Department of Health, Ireland (2020) *Ethical Framework for Decision-Making in a Pandemic*, available at <<https://www.gov.ie/en/publication/dbf3fb-ethical-framework-for-decision-making-in-a-pandemic/>>

experience in making judgments concerning withholding and withdrawing life sustaining interventions, it must be recognised that the COVID-19 pandemic has created an exceptional set of circumstances. Healthcare professionals working in this environment will, therefore, face unprecedented challenges, both from the scale of critical care resource demands and from being unable to provide critical intensive care to some patients who, in normal circumstances, would have received it. Data from different countries has documented the physical, psychological, emotional and moral burdens that these choices have placed on those working in intensive care. It is imperative that healthcare organisations, institutions and professionals recognise these demands and provide whatever supports are needed and possible, at this time, and that healthcare professionals experiencing these burdens feel at liberty to discuss the effects of those burdens with employers and colleagues.³¹ Some hospitals have set-up counselling services for their staff so that the issues they face can be addressed in a confidential setting.

Another important aspect to the care of patients and their families is pastoral care. If the aim of care is wholistic care of the patient then pastoral care is an essential component of this care. Pastoral care, including spiritual, sacramental support, and other appropriate pastoral support for Christians and all others, regardless of faith or belief, should be emphasised and available, particularly for patients who are expected to die and are not receiving intensive care. It was recommended that pastoral care should assist with the development and carrying out of plans to support staff with moral distress related to the COVID-19 pandemic in general. It is essential that appropriate support and work with clinicians and other healthcare professionals be given to enable them to assist patients, their families, and caregivers of patients who are affected by decisions regarding allocation of scarce resources. Particular attention should be given in cases of human and spiritual harm of isolation, thus offering creative and medically sound solutions to provide human connection (e.g., families) and spiritual resources.³²

During the COVID-19 pandemic it was recognised that in order to inform the public health response to a pandemic and to provide for appropriate scientific evaluation of any new intervention or medicine, research would be required. Data from such research would play a crucial role in mitigating mortality and morbidity during a pandemic. In many countries there was the desire to get research approved quickly by their respective Research Ethics Committees (REC). There was also the fear that due to the pandemic the normal procedures of ethical review of research could be overridden. To counteract this fear, the European Network of Research Ethics Committees (EUREC) published a guideline entitled 'Responsibility of Research Ethics Committees during the COVID-19 Pandemic.'³³ They argued that the diverse

³¹ Department of Health, Ireland (2020), *Ethical Considerations Relating to Critical Care in the context of COVID-19*.

³² Bon Secours Health System (2020) *Guideline on the Access Criteria for the Allocation of Critical Resources during the COVID 19 Pandemic*.

³³ European Network of Research Ethics Committees (EUREC) published a guideline entitled *Responsibility of Research Ethics Committees during the COVID-19 Pandemic*, available at

actions to contain the pandemic in Europe and worldwide must include the development and testing of effective drugs and vaccines. This is a particularly urgent matter. However, pharmaceuticals that are to be approved in the future to be used to cure COVID-19 must be as effective and safe as possible. Therefore, the European Commission, the European Medicines Agency (EMA) and national Head of Medicines Agencies (HMA) have published 'Guidance on the Management of Clinical Trials during the COVID-19 (Coronavirus) pandemic'³⁴ for sponsors on how to manage the conduct of clinical trials in this particular context and how to address questions of safety, risk assessment and informed consent. Notwithstanding the urgency in reviewing research, it was clearly stated that the guiding principle of the RECs, even under these specific circumstances, will not compromise the quality of the review; an accelerated procedure cannot be at the expense of safety, notably that of the research participants. The recognised ethical principles of autonomy, beneficence, non-maleficence and justice must always be respected. In particular, the following rules should be applied:

1. RECs should give clear priority to the assessment of submitted studies that are linked to the prevention or treatment of COVID-19 and COVID-19-related illnesses. The assessment of trials on other serious diseases with no satisfactory treatment option should also be prioritised;
2. The free and informed consent procedure must remain in accordance with European, national or other regulations;
3. In the current pandemic situation RECs should adopt new working methods, such as secure video conferencing, that are appropriate to the current situation and respect the new rules of conduct concerning the pandemic;
4. Responsible RECs must be composed of experts with the appropriate expertise. With regard to the assessment of trials concerning COVID-19, relevant experience and expertise must also be ensured within the REC;
5. Digital communication technologies can speed up administrative procedures. However, the information and communication technology used must be designed in such a way that GDPR-compliant transmission of data is guaranteed;³⁵
6. In the course of the study, the recording of undesired events and effects and their forwarding and evaluation must also be guaranteed by the investigator.

The overarching mission of all ethics committees is the protection of the dignity, rights, safety and well-being of research participants, namely patients and healthy volunteers, in medical trials. This also applies against the background of the current pandemic situation. Therefore, the pressure currently being exerted on medical

<http://www.eurecnet.org/documents/Position_EUREC_COVID_19.pdf>

³⁴ European Commission, the European Medicines Agency (EMA) and national Head of Medicines Agencies (HMA) have published *Guidance on the Management of Clinical Trials during the COVID-19 (Coronavirus) pandemic*, available at <https://ec.europa.eu/health/sites/health/files/files/eudralex/vol-10/guidanceclinicaltrials_covid19_en.pdf>

³⁵ See General Data Protection Regulation, available at <<https://gdpr-info.eu/>>

research must not lead to research or testing of pharmaceuticals on humans without complying with the ethical standards applicable to medical research.

The discussion on the allocation of resources, the care of frontline healthcare workers and the research that would be necessary to find medicines that could cure COVID-19 and the development of vaccines to vaccinate the populations against COVID-19 demonstrate the complexity of the ethical issues that need to be addressed during the pandemic. This is an ongoing process and new issues continue to arise. When and if a vaccine becomes available, ethical questions, such as who should be prioritised to receive it, will need to be addressed. Should a vaccination be compulsory or voluntary are examples of the ongoing ethical challenges that will need to be addressed by healthcare professionals.

Law and COVID-19

When the WHO declared COVID-19 a pandemic on 11 March 2020, that organisation's Director General Dr Tedros Adhanom Ghebreyesus, at a media briefing, stated: 'This is not just a public health crisis, it is a crisis that will touch every sector.' He went on to say, 'every sector and every individual must be involved in the fight.'³⁶ He was apprehensive at the degree of inaction and called on countries to take immediate steps to contain the virus. He commented further, 'we should double down ... we should be more aggressive.'³⁷ Some of the WHO recommendations were that people with mild respiratory symptoms should be encouraged to isolate, to engage in social distancing and it was recommended that these restrictions should apply even to countries with no reported cases.³⁸ Dr Hans Henri P. Kluge, WHO Regional Director for Europe stated:

Describing the situation as a pandemic requires countries to accelerate their efforts, striking the right balance between protecting health, preventing economic and social disruption, and respecting human rights. I appreciate that this means governmental authorities often face difficult decisions. Whilst every country is responsible for determining the nature and timing of measures introduced to prevent or slow down viral transmission, WHO/Europe considers that social distancing and quarantine measures need to be implemented in a timely and thorough manner. Some of the measures that countries may consider adopting are: closures of schools and universities, implementation of remote working policies, minimizing the use of public transport in peak hours and deferment of nonessential travel.³⁹

Many governments were waiting for the official declaration of a pandemic to take action. The day following the briefing, on 12 March 2020, the Irish government

³⁶ <<https://time.com/5791661/who-coronavirus-pandemic-declaration/>>

³⁷ D. Cucinotta and M. Vanelli (2020) WHO Declares COVID-19 a Pandemic; *Acta Biomed* Vol. 91, N. 1: 157–160. DOI: 10.23750/abm.v91i1.9397

³⁸ CIDRAP - Center for Infectious Disease Research and Policy, 11 March 2020.

³⁹ <<https://www.euro.who.int/en/health-topics/health-emergencies/coronavirus-covid-19/news/news/2020/3/who-announces-covid-19-outbreak-a-pandemic>>

announced the closure of all schools, colleges, childcare facilities, cultural institutions and advised cancelling large gatherings, including St. Patrick's Day festivities.⁴⁰ Other countries, with significant outbreaks of COVID-19, had already moved towards "lockdown" in advance of the WHO pandemic announcement in an attempt to control the spread of the virus.

In the European Region, by 12 March 2020, there were already more than 20,000 confirmed cases and there had been almost 1000 deaths.⁴¹ With a rapidly escalating number of infections and deaths, Italy sought to reduce the spread of COVID-19 by imposing restrictions in 11 towns in the region of Lombardy. In effect, this quarantine meant residents were only permitted to leave home for the purpose of work, shopping for food, and attending school. Public gatherings were prohibited. By early March, against a backdrop of dramatically rising cases and deaths, the Italian Prime Minister Giuseppe Conte announced drastic national quarantine measures. These measures included obtaining permission to move around the country for reasons of work, health or extenuating circumstances only. Italian citizens were also required to seek permission to leave the country. Italian schools and universities also closed. Prison visits and day release programmes were suspended which resulted in riots, prison guards being held hostage, and the deaths of several inmates.⁴² These tight restrictions mirrored what the world had witnessed unfolding in China following the confirmed outbreak of COVID-19 in Wuhan, Hubei Province in December 2019. The outbreak initially resulted in the closure of Huanan seafood wholesale market but by the end of January 2020 the city of Wuhan and 11 million people were under lockdown. Areas around the city followed suit and more than 56 million people were under home quarantine for 76 days, which represented the largest quarantine in history.⁴³

The COVID-19 emergency was, and continues to be, a rapidly evolving crisis with a lack of effective drug treatments, a vaccine or population immunity. It has exacted a heavy toll in particular on healthcare services and vulnerable populations. Across the globe some of the worst death tolls have been seen in care homes. WHO Europe reported that up to 50% of COVID-19 deaths across the region were in care homes.⁴⁴ Nuffield Trust in a blog post reported deaths in Canadian care homes represented 72% of all COVID-19 deaths in the country⁴⁵ and Ireland reported 62% of

⁴⁰ P. Leahy, P. Cullen, S. Lynch, F. Kelly (12 March 2020) 'Coronavirus: Schools, colleges and childcare facilities in Ireland to shut', *The Irish Times*, available at <<https://www.irishtimes.com/news/health/coronavirus-schools-colleges-and-childcare-facilities-in-ireland-to-shut-1.4200977?mode=amp>>

⁴¹ *Ibid.*, 3.

⁴² <<https://www.nytimes.com/2020/03/09/world/europe/italy-lockdown-coronavirus.html>>

⁴³ *Ibid.*, 3

⁴⁴ <<https://www.itv.com/news/2020-04-23/care-home-residents-account-for-up-to-half-of-covid-19-deaths-in-europe-who>>

⁴⁵ Blogpost, Death in care homes and what do the numbers tell us

<<https://www.nuffieldtrust.org.uk/news-item/deaths-in-care-homes-what-do-the-numbers-tell-us#what-the-numbers-tell-us>>

all COVID-19 deaths as occurring in care homes.⁴⁶ A review in the *British Medical Journal* found that ethnic minorities were disproportionately at risk from the virus primarily due to poverty and social disparities.⁴⁷

Lockdown measures, as they are commonly referred to, were ultimately introduced across the globe as the grip of the pandemic tightened and governments attempted to control it. By April 2020 UNICEF indicated 82 countries had introduced either a full or partial lockdown.⁴⁸ Measures varied from country to country in terms of the types of restrictions imposed and the consequences, if any, for non-compliance. For many people lockdown manifested as a severe restriction on their economic and personal freedoms. In relation to Covid-19's impact on human rights Greene (2020) noted: 'Such are its all-encompassing effects, it is difficult to think of a right that has not been affected by Covid-19.'⁴⁹

These crude and severe measures proved effective and the number of deaths and infections dropped to such an extent that restrictions were eventually eased. The emergence of a second wave of the virus across Europe has seen the re-introduction of lockdown with Ireland being the first European country to bring back national restrictions in October and other countries followed within days, including France, Germany and Belgium.⁵⁰

Lockdown and Emergency Powers

In order to tackle this exceptional pandemic crisis, the introduction of restrictions to protect public health were backed up by legal powers. This meant the enactment of emergency laws in many instances. Some states declared a state of emergency as a mechanism to allow for the introduction of emergency laws while others proceeded by way of ordinary legislation, with varying reasons for the approach taken. Many countries have a framework set out within their constitutions allowing for the declaration of a state of emergency. Such declarations are usually reserved for times of war, natural disaster, terrorist attacks and epidemics. Greene (2020) notes: 'The entire point of declaring a state of emergency is to enable an exceptional response that is not permissible during a state of "normalcy"- a time when an emergency has

⁴⁶ <<https://www.irishtimes.com/news/health/ireland-has-one-of-the-highest-rates-of-covid-19-deaths-in-care-homes-in-world-1.4260140>>

⁴⁷ G. Lacobucci (2020) *Covid-19: Increased risk among ethnic minorities is largely due to poverty and social disparities, review finds BMJ*, 371 doi: <<https://doi.org/10.1136/bmj.m4099>> (Published 22 October 2020).

⁴⁸ UNICEF, Don't let children be hidden victims, available at <<https://www.unicef.org/press-releases/dont-let-children-be-hidden-victims-covid-19-pandemic>>

⁴⁹ A. Greene, *Emergency Powers in A Time of Pandemic* (Bristol: Bristol University Press, 2020), 45.

⁵⁰ <https://theconversation.com/why-was-ireland-the-first-european-country-to-go-back-into-lockdown-and-will-it-work-149258>

not been declared.’⁵¹ Bulgaria, Estonia, Romania and Czechia are all examples of countries that used a constitutional framework to declare a state of emergency lawfully to introduce restrictions.

On 12 March 2020 the Czech government declared a state of emergency across the country for a period of 30 days with reference to a restriction of rights. Within hours of the declaration the government had adopted crisis measures specifying individual restrictions. Some of these included the closure of gyms, swimming pools, music clubs, libraries, galleries, significant limitations of movement within the national territory, closure of external borders and also a requirement that people cover their mouths and noses in public places. The state of emergency was extended twice and ended on 17 May 2020. During the time of the state of emergency 65 crisis measures were enacted by the government without the necessity to consult parliament.⁵² By way of contrast, in Ireland the constitutional framework under Article 28.3.3⁵³ for emergency situations was not activated in response to the COVID-19 pandemic, as this provision is limited to war and national unrest. In this instance Ireland did not depart from ordinary law-making.

Initially, the Irish Government issued official guidelines in late March 2020 which affected all areas of normal life. These guidelines subsequently became legally binding with the enactment of two pieces of emergency legislation,⁵⁴ one of which authorised the Minister for Health to enact far-reaching regulations designed to prevent, limit and slow the spread of the disease.⁵⁵ In April, an order was signed declaring the entire State to be an “affected area”. By September, more than 20 laws were signed introducing restrictions such as limitations on travel, mandatory wearing of face masks in certain settings, closure of bars and restaurants with provision for penal sanctions in some instances.

Most liberal democracies, like Ireland, have opted for a combination of “soft” guidelines without sanction for breaches and “hard” rules carrying the force of criminal law. This has led to some high-profile cases involving political officials and members of the judiciary and general confusion as to what is law and what is not.⁵⁶ Some have argued that a time limited declaration of a state of emergency in fact provides better protection to the rights of citizens as a state of emergency limits exceptional powers to exceptional situations and draws a clear distinction between

⁵¹ A. Greene, *Emergency Powers in A Time of Pandemic*, 6.

⁵² Available at <[https://www.europarl.europa.eu/RegData/etudes/BRIE/2020/652002/EPRS_BRI\(2020\)652002_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2020/652002/EPRS_BRI(2020)652002_EN.pdf)>

⁵³ Bunreacht Na hÉireann, 1937 / Irish Constitution.

⁵⁴ Health (Preservation and Protection and other Emergency Measures in the Public Interest) Act 2020, available at <<https://data.oireachtas.ie/ie/oireachtas/act/2020/1/eng/enacted/a0120.pdf>>; Emergency Measures in the Public Interest (COVID-19) Act 2020,

Available at <<https://data.oireachtas.ie/ie/oireachtas/act/2020/2/eng/enacted/a0220.pdf>>

⁵⁵ *Ibid.*, 17.

⁵⁶ I. Bacik, ‘I did not break any law’ — Police enforcement of the lockdown COVID-19, Law and Human Rights Observatory Blog (9 September 2020), available at <<https://tcdlaw.blogspot.com/2020/09/i-did-not-break-any-law-police.html>>

normalcy and emergency. There can be a risk of creating democratic legitimacy of significant infringements on fundamental rights by not emphatically defining them as not the norm.⁵⁷

Maintaining Core Values in Emergency Law

Regardless of the approach taken by governments to introduce lockdown laws, it is essential that the core values of rule of law, freedom, democracy, equality and respect for human rights are maintained. Adhering to these principles of law making protects against the erosion of rights or abuse of power in drafting emergency law. The danger is that bad law, not adhering to accepted core principles, can serve to legitimise the undermining of fundamental rights and freedoms. The Marxist historian E.P. Thompson has commented on the Black Act (1723) that was introduced in Great Britain in response to raids by poachers. This law introduced the death penalty for offences including deer stealing and tree-cutting in enclosures which had previously been public land.⁵⁸ It was a significant redistribution of property rights from the public to an already wealthy and powerful elite. Thompson described it as ‘a bad law, drawn by bad legislators, and enlarged by the interpretations of bad judges.’⁵⁹ Chinese law professor Li Shuguang also warned of law being used as instruments of injustice: ‘[U]nder the rule of law, the law is preeminent and can serve as a check against the abuse of power. Under rule by law, the law can serve as a mere tool for a government that suppresses in a legalistic fashion.’⁶⁰

One of the most catastrophic examples in history of the utilisation of law to control, oppress and commit unspeakable atrocities on humanity was the use of Article 48 of the German Weimar Constitution. Employing Article 48, Adolf Hitler persuaded the parliament to pass the Enabling Act which allowed him to rule by decree indefinitely. War correspondent Martha Gellhorn, when reporting on the Nuremberg trials, tasked with trying 24 of the most important political and military leaders of the Third Reich, which was held in the aftermath of World War II in 1946, wrote:

[T]en million soldiers, sailors, airmen and civilians are dead as victims of war, and twelve million men, women, and children are dead in gas chambers and furnaces. In great common graves where they were shot, in the stockyards that were concentration camps, dead of hunger and disease and exhaustion dead all over Europe. And all these deaths were horrible. What these men and their half-dozen deceased partners were able to do, no famine, no plague, no acts of God ever did: they produced destruction as the world has never seen destruction.

A publication of the European Commission in 2019, emphasised the importance of acting within the constraints of the values of law: ‘All public powers always act

⁵⁷ A. Greene, *Emergency Powers in A Time of Pandemic*, 24–32.

⁵⁸ See E.P. Thompson, *Whigs and Hunters: The Origin of the Black Act* (New York: Patheon Books, 1975).

⁵⁹ T. Ni Mhuirthile, C. O’Sullivan, L. Thornton, *Fundamentals of the Irish Legal System-Law, Policy and Politics* (Dublin: Roundhall, 2016).

⁶⁰ *Ibid.*, 24.

within the constraints set out by law, in accordance with the values of democracy and fundamental rights, and under the control of independent and impartial courts.’⁶¹ The publication includes, among other things, a prohibition on arbitrary exercise of executive power, legal certainty, transparency, respect for fundamental rights and equality before the law.

In the context of COVID-19 and human rights, High Representative Josep Borrell on behalf of the EU, recently declared ‘the need to pay special attention to the growing impact of the pandemic on all human rights, democracy and the rule of law’, and cautioned that it ‘should not be used as a pretext to limit democratic and civic space, the respect of the rule of law and of international commitments.’⁶²

The UN has also warned of the risk of the pandemic being used as a pretext to undermine democracy and quash legitimate dissent.

Where governments respond with an expanded role and the forceful presence of police and other security actors, challenges can emerge, including perceptions of bias, disproportionate use of force, and other human rights issues. There is also a risk that some states may utilize emergency powers to consolidate executive authority at the expense of the rule of law, suppressing dissent and undermining democratic institutions, especially where courts and other oversight bodies struggle to perform due to COVID-related restrictions.⁶³

Preservation of Rights: A Balancing Act

Governments around the world now have significantly enhanced powers to restrict the rights and freedoms of citizens in the interest of public health. There is little doubt these powers are having a huge impact on how we live our lives, encroaching on our freedom of assembly, movement, our ability to run a business and even if we can leave our homes. In Spain children were confined to their homes for 43 days with no exit allowed.⁶⁴

Fundamental human rights are set out in various international treaties and national laws. Some are considered absolute rights and must be maintained even during an emergency. These include the right to life and a prohibition on torture and inhumane and degrading treatment. Other rights such as the right to privacy, freedom of movement, property and liberty are considered qualified rights and may be limited in certain circumstances. Any interference with these rights must be legitimate, proportionate and necessary. It is a balancing act between the fundamental

⁶¹ M. Gellhorn, *The Face of War*, Atlantic Monthly Press, 1954; see also Brussels, 3.4.2019; Com (2019)163 final, COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE EUROPEAN COUNCIL AND THE COUNCIL – Further Strengthening the Rule of Law within the Union, available at <https://webapi2016.eesc.europa.eu/v1/documents/com163-2019_part1_ext_EN.docx/content>

⁶² J. Borrell, Human rights in the times of the coronavirus pandemic, available at: <<https://www.consilium.europa.eu/en/press/press-releases/2020/05/05/declaration-by-the-high-representative-josep-borrell-on-behalf-of-eu-on-human-rights-in-the-times-of-the-coronavirus-pandemic/>>

⁶³ A. Zouve, ‘COVID and the Rule of Law: A dangerous Balancing Act’, available at <<https://www.un.org/en/coronavirus/covid-and-rule-law-dangerous-balancing-act>>

⁶⁴ Ibid., 23

priorities of public health and freedom. On the whole most people are happy to make the concession. They see it as being tough but necessary and view it as important for the safety of our countries and the prevention of death. People are making a choice in permitting states to take steps to restrict freedoms for the collective interest. To safeguard against the risk that states may abuse this position, special powers must be limited by time with a sunset clause. There should be a clear way of reviewing such power, monitoring of the use of powers and freedom of expression to facilitate accountability.⁶⁵

Worryingly, Hungary introduced emergency rule by decree of Prime Minister Orbán with no cut-off date until parliament revoked it. Some decrees issued included up to 8 years in prison for breach of quarantine and up to 5 years in prison for publishers of 'false or distorted facts.' This emergency rule has now been replaced by 'state of medical crisis', allowing for a wide range of decrees, until end of December 2020 and cannot be lifted by parliament.

Among other concerns are that laws may be used in a sectarian way. The Tablighi Jamaat Islamic movement in India saw over 3000 members spend more than 40 days in quarantine.⁶⁶ In the United Kingdom the deployment of drones to observe dog walkers was branded as sinister.⁶⁷ Further, there was widespread apprehension that police were overstepping their powers when they dyed a lake black to deter visitors during lockdown.⁶⁸ In conclusion, it is incumbent on governments, leaders, and law makers to uphold the dignity and rights of individuals and to realise fully their responsibility in ensuring a complete return to normality when the COVID-19 crisis is over. There should be no 'creep' or legal trace remaining of the restrictions currently being endured for the common good. Citizens also have a duty to engage with politics to ensure accountability and the protection of human rights and freedom.

Conclusion

This chapter has attempted to provide a response to the COVID-19 emergency in the context of leadership, business ethics, and law. All emergencies provide opportunities for leadership. Since the emergence of the pandemic, nations and governments have been concerned, in the first instance, for the health and wellbeing of their citizens. As the process of development of effective vaccines to counteract coronavirus has made an initial but narrow breakthrough, the concern for business and

⁶⁵ Baroness Helena Kennedy, International Bar Association (IBA) podcast, 'Rule of Law in the time of Covid-19', available at <<https://www.ibanet.org/Podcasts/7549027.aspx>>

⁶⁶ <<https://www.aa.com.tr/en/asia-pacific/india-3-000-muslims-forced-to-quarantine-after-40-days/1833654>>

⁶⁷ See <<https://www.google.ie/amp/s/www.bbc.com/news/amp/uk-england-derbyshire-52055201>>

⁶⁸ See <<https://www.google.ie/amp/s/news.sky.com/story/amp/coronavirus-derbyshire-police-dye-buxton-blue-lagoon-black-to-deter-gatherings-11964966>>

prosperity is resurgent. In the post-COVID society, an appropriate style of innovative political leadership should foster a sustainable spirit of co-operation between business ethics and leadership, on a transnational basis, in order to build a more equable global society with the capacity to enhance the quality of life of all.

Chapter 3

Business Ethics: Europe Versus America



Domènec Melé

Abstract Comparing Europe and the United States has a long tradition, at least since Alexis de Tocqueville published *De la Démocratie en Amérique* in 1835 (volume one) and 1840 (volume two). In this chapter, we will review the contributions of other scholars, while also presenting the personal knowledge of the author. In this review, several factors relating to business ethics will be considered including cultural environment, business activities, public authority, civil society and the academy. We will conclude by discussing how interdependence of the above-mentioned factors, as well as the cultural and political legacies in Europe and America can give a reasonable explanation of the differences.

Keywords Europe · United States · Business ethics · Cultural environment · Public authority · Civic society

Introduction

Business ethics and such related fields as Corporate Social Responsibility (CSR) have undergone considerable development worldwide during the past 25 years, starting with North America and Europe. Several scholars have studied the current situation of this development for both America (Dunfee and Werhane 1997; Werhane and Freeman 1999) and Europe (van Luijk 2001; Zsolnai 1998; Habish et al. 2004). Comparing Europe and America in business ethics, seems interesting not only for academic reasons, but also to understand each other more and to learn from each other's perspectives.

Comparing Europe and the United States has had a long tradition, at least since Alexis de Tocqueville published *De la Démocratie en Amérique* in 1835 (volume one) and 1840 (volume two). Although he focuses on the United States, inevitably he makes frequent comparisons between this country and his home country, France. In recent years, comparisons between Europe and America have been relatively

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frequent in different areas, including economics, politics, labour issues, social welfare, international relations, culture, and so on; and business ethics is not an exception. However, comparing Europe and America is not an easy task, because neither Europe nor the United States is a homogeneous reality. There are very sensitive differences between the East and the West Coast of the USA, between the Midwest and the South and, in fact, even in each American state. Europe presents an even greater variety. Actually, Europe is a patchwork of different cultures and socio-economic scopes, from the Urals to Ireland. Even if one tries to group Europe into regions, there are considerable differences. Compare, for instance, the Scandinavian countries (Norway, Sweden, Finland, Denmark), the Atlantic islands (Ireland, UK), Central Europe (Germany, Austria, Poland, etc.), Eastern Europe (Russian, Czech Republic, Hungary, etc.), and the Mediterranean countries such as Portugal, Spain, Italy, Greece, and partially France.

In spite of this difficulty, some scholars have ventured to compare Europe and USA, at least in certain aspects, regarding business ethics and corporate social responsibility, and from different perspectives. Singer (1991) and Vogel (1992 and 1993) did so under the question of whether ethical standards are higher in America than in other countries. Langlois and Schlegelmilch (1990) compared corporate codes of ethics between the USA and three European countries (UK, France and Germany). Mahoney (1990) studied differences in teaching business ethics at the beginning of 1990. O'Neil (1986), Mathison (1993) and Murphy (1994) surveyed what European managers think on corporate ethics and they contrast their findings with Americans' views. Maignan and Ralston (2002) compared corporate social responsibility in Europe and the United States; Doh and Guay (2006) studied differences on some CSR issues in connection with public policy and non-governmental organization (NGO) activism in Europe and the United States. Guillen et al. (2004) studied how business ethics was institutionalized in Spain comparing American based companies with companies whose headquarters are in Europe. Palazzo (2002) presented an intercultural comparison between American and German business ethics; van Luijk (2001) described European developments in business ethics, with some comparisons with American approaches. Last, but not least, Enderle (1996) and Crane and Matten (2004, chapter 1) have presented several major differences on business ethics between North America and Europe.

In this chapter, we will review some of these contributions, while also presenting the personal knowledge of the author, who has been working in the field of business ethics for more than twenty years. In this review, several factors related to business ethics will be considered, comparing Europe and the USA, namely, cultural environment, business activities, public authority, civil society and the academy. We will conclude by discussing how interdependence of the above mentioned factors, as well as the cultural and political legacies in Europe and America can give a reasonable explanation of the differences.

Cultural Environments in Europe and America

In the USA, there is a great concern for individual freedom, human rights and democracy, as well as a strong awareness of American citizenship. In the European cultural context, one can find a strong sense of social justice, equalitarianism, and will of participation. There is also concern for the environment, human rights and other social issues in developing countries. Many people feel nationalistic about their own country rather than feeling European, and there seems to be difficulties in approving a common document like a European Constitution.

Europeans manifest great social expectations of the state to solve structural problems. Actually, most European countries have a strong welfare state, although this has been decreasing in latter years. In America there is a weak welfare state, although increasing, and there are low social expectations on the state for solving structural problems. In addition, in some European countries, such as Germany, a sense of corporativism exists.

There are different degrees of confidence in the political system in Europe (high in the Scandinavian countries, low in Eastern countries) and corruption (low in Scandinavian countries). Europeans love the democratic system and the free market system, but probably are not as enthusiastic as the Americans. The latter shows a high degree of confidence in democracy and free market, as well as the equal opportunities to succeed in business and in the crucial role of entrepreneurs.

Another difference is the role of religion. In the USA, although there is a full separation of church and state, religion plays a large role in the public arena. Religious people are esteemed and there exists a scrupulous respect for religious freedom and spiritual diversity. In Europe, religion is rarely mentioned in policy, and often media and entrainment are satirical or even bothered by religion or religious leaders. In addition, many Europeans lack awareness of common religious, spiritual and cultural roots. However, many others are in tune with Christian social teaching and appreciate moral statements of churches and religious leaders (more in some countries than in others). Regarding the place of religion in society, Europeans are clearly divided: near half agrees that religion is too important in society and the other half disagrees.¹

Arguments given for business ethics in the USA are frequently about the necessity of trust for business. Scandals burrow into public opinion and corporate executives because without trust, the whole capitalistic system, which needs 'good business', falls short. In Europe, people have confidence in the whole system including the role of government and laws. The reasons for business ethics and, above all, for corporate social responsibility are economic (Enderle 1996), namely, avoidance of risks and obtaining a good reputation: two conditions for long term profitability.

¹ In accordance with the last Eurobarometer, exactly 46% agree and 48% disagree on the question: Is the place of religion in our society too important? (Eurobarometer 66. Public Opinion of the European Union (First results, December 2006): http://ec.europa.eu/public_opinion/archives/eb/eb66/eb66_highlights_en.pdf, accessed on December 28, 2006.

From a business perspective, the respective positions about the role of market and government are relevant. O'Neil (1986), from his experience in teaching "Social and Legal Environment of Business" to both American and European students, realized that they have quite a different mentality in focusing on social issues and government regulations. He said: "European students would stress the need for a central authority with power to regulate economic activity. American students, on the other hand, would assume the laissez-faire, free enterprise position and cite Adam Smith or his modern counterpart, Milton Friedman, as their authority." (1986, p. 64)

Business Practices in Business Ethics and CSR

Businesspersons in Europe are more and more sensitive to the social responsibilities of business, and reputation (or risk) associated with them. "Corporate Social Responsibility", "Corporate Citizenship", "Sustainable Business" as well as "Business Ethics" have become important challenges for European corporate managers. However, the term "ethics" is less used in Europe than in the USA. Langlois and Schlegelmilch (1990), analysing corporate ethical codes in the UK, France and Germany, found that the word ethics did not appear in the title, with a few exceptions. Instead, equivalent corporate statements used terms such as 'code of conduct', 'principles of action', or a set of 'objectives'. These statements become, in practice, an ethical code for the company (p. 523). In the same vein, Enderle (1996) noted that while in the USA there is basically one language and it is easy to discuss business ethics, in Continental Europe, however, there are multiple languages and many people are reluctant to talk about business ethics. Palazzo (2002) added that whereas many US corporations have introduced formal business ethics programs, German companies are very reluctant to address normative questions publicly.

In the USA, Corporate Values and Codes of Conduct are common in most big companies (Murphy 1998), which are generally publicised on the Internet. "Managing for Organizational Integrity" has become an important concept appealing to corporate managers. Ethics Officers or Corporate Ombudsmen and ethical training programs are common in large American companies. In addition, prominent organisations give annual business ethics rewards. In short, although many challenges remain, business ethics is flourishing in North America (Dunfee and Werhane 1997). After the financial scandals at the beginning of the twenty-first century, business ethics has received a new impulse.

In Europe, most large companies have Corporate Values statements and Codes of Conduct. This is particularly true in the case of US based companies (Guillen et al. 2002), which follow similar practices as in the USA. Genuine European companies seem more concerned for CSR than for ethical codes and ethical training. CSR Managers and Ombudsmen are becoming common in large European companies, while there are practically no ethical officers and few ethical programs.

Crane and Matten (2004) state that the guidelines for ethical behaviour in the USA are centred on more corporate codes of ethics while in Europe the focus is on

the negotiated legal framework of business. This is probably only an approximation. Sometimes, in stressing the importance of CSR, the presence of codes of conduct in Europe is underestimated. Since the middle of 1980s many codes of conduct have been introduced in Europe. The Swiss company Zeiss introduced a corporate code of ethics as early as 1896 and Mobil France has a code since 1945 (Langlois and Schlegelmilch 1990). In the intervening period, an increasing number of companies have adopted a code of conduct or similar provisions.

In America there is a long tradition of corporate community involvement and corporate philanthropy programs. Actually, businesses have played an active role in the development of many US communities. In Europe, although there are a number of companies with philanthropy programs and a certain involvement in the community, most European companies do not pay very much attention to the community in which they are operating. A survey carried out in three European countries (France, the Netherlands and the UK) shows that they “do not have a long-lasting tradition encouraging businesses’ social involvement”; since, “it is not surprising that few European companies used organizational values to justify their apparent commitment to CSR.” (Maignan and Ralston 2002, p. 511)

Public Authorities in Fostering Business Ethics and Corporate Social Responsibility

European governments have extensive legislation on employee rights and employment regulations and consumerism, which include many aspects that in the USA are considered part of corporate social responsibilities. Apart from this, the European Union and some European governments encourage companies to assume voluntary social responsibilities including matters such as worker and consumer rights, environment, human rights, community investments, beyond what laws establish on a compulsory basis. The Nice Charter and the draft of the “European Constitution” present a wide range of individual and social rights for people living in Europe, which affect business. In a more explicit way, in 2002, the European Commission published the “Green Paper” on Corporate Social Responsibilities.

The governments of some European countries are also trying to encourage and foster implementation of CSR. This is, for instance the case in Italy, whose government paid for institutional advertising to foster CSR. Others are not as active but, in various ways, are fostering the CSR debate. The Netherlands is a case point where the minister for Economic Affairs supported and promoted an investigation into the role of the government and other parties in the CSR debate. In the UK there has even been a minister for CSR, an office that was created in 2002, and whose objectives are as follows: raising the profile and highlighting the importance of social and environmental responsibility, making responsible behaviour a consideration of core business, assisting the involvement of small and medium sized enterprises, promoting transparency in CSR reporting and awareness in the marketplace,

as well as promoting good practice in CSR internationally as well as in the home country.²

It is known that intervention of the State in social issues is greater in Europe than in the US. The welfare state has expanded greatly in Europe since the Second World War, although in recent years it has suffered a certain involution. In Europe, there is a long tradition of public authorities supporting social causes. European cultural legacy can explain this presence of the state in issues related with business ethics and CSR. Feudalism in the Middle Ages, the absolute monarchies and the modern state, emerging from the French Revolution and the Napoleonic organization, are more closely in line with the presence of Governments on issues related with the social responsibility of business.

In Europe there is no special incentive from public authorities to promote business ethics in business. US companies, however, are rewarded by institutionalizing ethics within companies. The Guidelines of the US Sentencing Commission (1991, 2002) for judges, establishes that when sentencing corporations that have committed criminal violations of US law, payable fines shall be decreased if the corporation has an effective ethical program in place. In addition, the US Sentencing Commission has distributed grants to encourage academic research on business ethics.

The US governmental position regarding CSR follows a different style from its European counterpart. The CSR concept of the American government is focused on human rights, “but” – in the words of L. Craner (2002), Assistant Secretary of State for Democracy, Human Rights and Labour – “it also includes fighting corruption, promoting the rule of law and good governance, and encouraging corporate philanthropy.” This concern had a specific action when in the middle of 1990s, the problem of sweatshops appeared, in which several apparel and footwear companies were involved. President Bill Clinton announced the introduction of a new “No Sweatshop” voluntary Code of Conduct for US Apparel and Footwear companies. Signatory companies, including Nike Inc., Reebok International Ltd. and Liz Claiborne Inc, agreed that a set of minimum standards for working conditions in factories would be adhered to in the production of their goods – wherever that production occurs.

Currently, US public administration provides funding for public-private partnerships, recognizes achievements by corporations, facilitates dialogue, and upholds international standards. This comprehensive approach allows ethicists to work with governments, the private sector and civil society to strengthen human rights and promote corporate responsibility (Craner 2002). Fighting against sweatshops is still the most important goal. Apart from this, the US State Department recognizes exemplary corporate leadership through the annual Award for Corporate Excellence. These rewards are usually given for actions of corporate philanthropy. In addition, the US government grants some tax breaks for social benefits to employees and for corporate philanthropy.

²http://www.csr.gov.uk/pdf/dti_csr_final.pdf, accessed on December 27, 2006.

Concern for (individual) human rights has a long tradition in the USA, in line with John Locke's approach, which had an enormous influence in shaping the American Constitution. At the same time, the philanthropic actions of private individuals and, to some extent of business corporations, also have a long tradition in the USA. This may be due to the relatively minor attention given to social problems by the American Government – in comparison with Europe – along with a Christian culture of concern for people in need.

Influence of the Civil Society

Civil society understood as the totality of voluntary civic and social organizations and institutions that form the basis of a functioning society, is performing an increasing role in promoting business ethics and CSR, both in Europe and the USA. The labour movement, ecological protests, consumerist groups, and many other social protest movements, along with the Churches' moral voice, have contributed at least from the nineteenth century to notable improvements in labour conditions, fairness in marketing, and other ethics and social issues of business. Now, the NGOs, unions, civil associations, churches and religious groups are still doing their job in promoting responsible business beyond the structures of the state. Over the past 20 years NGOs have acquired an increasing influence. Generally, they have started as interest-groups and have then become non-profit making organizations to defend or promote certain interests. Over 20% of European-level interest groups are public-interest groups, spanning consumer, environment, citizenship, and social groups. These were established between the mid 1960s and early 1990s (Greenwood 1997). In America, NGO activism is older. Apart from other performances, some religious and community groups, human rights organizations, and anti-apartheid activists, were very active in building strong networks and pressed US cities and states to divest their public pension funds of companies doing business in South Africa (Wright 1990).

In Europe, the trade unions are stronger than in the USA, but NGOs for corporate social responsibilities are weaker than in the USA. The main concern about business responsibility in Europe is for environmental and employment issues, with a more moderate concern for consumerism. In the USA, NGOs are more active in matters related to human rights and consumerism, as well as the environment.

In the USA, public policy process does not include standing for NGOs or interest groups, while in Europe there is a long history of direct involvement by farmers, unions, and interest groups in governmental policy and corporate governance. Presently, European governments regularly include business, labour, and other significant interest groups in the policymaking process. In this tradition, NGOs, unions and other interest groups have found access points at the European Commission and Parliament to influence European policy. In addition, the European Commission can finance some activities of NGOs, which is very rare in America (Doh and Guay 2006).

Another point to be considered is that in some European countries, such as Germany, the United Kingdom and Scandinavia, there is a willingness to arrange partnerships between private business and public institutions; in practice, public-private partnerships are relatively frequent. In the USA, although public-private partnerships are mentioned among governmental actions (Craner 2002), those forms of partnerships are not very common in America.

Socially Responsible Investing (SRI) is also unequal in America and in Europe. It started in America with religious groups which required ethical investment, especially in a negative sense (no investing in industries which damage society). Now, with a more positive approach, socially responsible investing is more widespread in the USA. SRI attempts to maximize both financial return and social good. In Europe, SRI funds are significant in some countries (UK, Sweden), but not so in many other European countries.

In America, some activist groups are trying to have an influence on social issues present in some controversial companies by buying shares in those companies. Such 'shareholder activism' is much less common in Europe.

Academic Developments

Since 1980, the number of endowed chairs and research centres devoted to business ethics and related matters is growing in the USA. In Europe, there is an increasing number of endowed chairs and research centres but, rather than business ethics, most are related to Corporate Social Responsibility, corporate citizenship, business in society, and so on. Slowly, business ethics and/or social issues and related matters are becoming more prominent in the business education curriculum in both undergraduate and postgraduate programs.

In 1980, the *Society for Business Ethics* (SBE) was founded in the USA, as an international organization of scholars engaged in the academic study of business ethics, but including others with interests in the field. The first association for business ethics in Europe was the *European Business Ethics Network* (EBEN), founded in 1987. Its aim is the promotion of business ethics education and training as well as improving practices. EBEN has national chapters in several European countries and around 1,000 individual members, apart from institutional members. In 1996 the *European Ethics Network* (EEN) was created, officially endorsed by the European Commission as a thematic network. The EEN is not exclusively about business but business and management which are included within a wide scope of ethics in professions. Another association, one that is very active, is the *European Academy of Business in Society* (EABIS). It was created in 2002 as an alliance of companies, business schools and academic institutions. With the support of the European Commission, it is committed to integrating business in society issues into the heart of business theory and practice in Europe.

Regarding specialist scientific journals, both America and Europe have reputable journals in the field of business ethics. Apart from the well-known *Journal of*

Business Ethics, published by a European publisher (Springer), although with a worldwide scope, since 1980, the *Society for Business Ethics* edited *Business Ethics Quarterly*, a journal which presents a basically philosophical approach; most of the contributing authors are from America. A new European journal: *Business Ethics: A European Review* was launched in 1991 and was renamed *Business Ethics, the Environment & Responsibility* in 2021.

In Europe and America, there are annual conferences on business ethics and social issues, organized by business ethics associations (SBE, EBEN, Academy of Management-Division of Social Issues Management) or for research centres or business schools (e.g., the International Center for Corporate Accountability, in the USA, and IESE Business School, in Europe). Furthermore, several publishers have developed book series, both in Europe and America.

In Europe, business as a whole, including its social responsibilities, is stressed more than merely providing solutions for individual ethical dilemmas. However, applied ethics aimed at solving moral dilemmas is also taught. Frequently, the teaching focus is more on social actors rather than on individuals while the cultural context is emphasized more than universal principles of morality. By contrast, in America, business ethics is conceived as an applied ethics focused on ethical reasoning for decision-making and solving dilemmas, and the business ethics approach is, generally, individualistic, legalistic and universalistic. However, in both Europe and America there is an increasing interest in the virtue ethics approach.

A superficial review of European conferences and contributions to journals from European authors shows that the majority of topics are about foundations of economic and business ethics, relationships between business, civil society and the state, business activities and sustainable development, business activities and public concerns, globalization and business in developing countries (human rights abuse, corruption, etc.). You can also find specific issues, such as business ethics issues in national contexts and comparisons between nations, environmental issues, teaching and the implementation of CSR, corporate risk and reputation in connection with CSR, concern for employees and ethics in the workplace (safety, immigrant workers, gender discrimination, etc.).

The paradigm used for business ethics in North America is mainly normative, while in Europe it is based more on the social sciences (Enderle 1996). US business ethicists use wildly rationalistic universal principles, mainly some form of deontologism or Utilitarianism. They generally offer a set of ethical principles for moral reasoning leaving the responsibility to apply one or other to the student or practitioner (e.g., De George 1999; Velasquez 2001), although some authors have a clear preference for a certain ethical theory (thus, Bowie 1999, makes an option for Kant), or have introduced new ways to solve ethical dilemmas (Werhane 1999, with a proposal on moral imagination), stakeholder thinking (Freeman 1995) is also very popular among American business ethicists for integrating ethics into management. It permits the use of any principled ethical theory (Freeman 1994). However, virtue ethics in business (Solomon 1992, Hartman 1996) is gaining territory in America as well as in Europe.

In European Anglo-Saxon countries the situation of the business ethics paradigm is similar to the USA, but many researchers in Central Europe are focused on

communicative ethics, in which instead of substantive ethical norms, they use procedural norms (Preuss 1999). Stakeholder Theory is sometimes applied considering social values and demands rather than ethical principles. In some European countries, especially those of Catholic tradition, business ethics is built considering Moral Natural Law, based on rational human nature, and the traditional human virtues, summarized in: practical wisdom, justice, fortitude and self-mastery.

Although further research would be necessary to establish solid conclusions, broadly speaking, I would say that American scholars in the business ethics field show less interest in foundations of economic and business ethics and in the relationships between business, civil society and the state. They usually focus on topics such as conflict between personal and corporate values, organizational ethics, instrumental value of behaving ethically, business ethics theories, moral leadership, or on some more specific issues related to questionable practices in the USA, more frequent in that country than in Europe: downsizing, cutbacks, severance terms, discrimination at the workplace (racial, ethnic, gender). They are also concerned with issues related to multinational companies in the global context: e.g., business in developing countries (human rights abuse, corruption), business and global environmental sustainability as well as globalization and business activities.

Influence of Cultural and Political Legacy

In the previous descriptions one can discover that beyond many differences there are also many similarities. Among others, there is awareness of the ethical and social dimensions of business and concern for human rights, and the inherent human dignity of the person. If we review carefully the contents of codes of ethics and CSR we will also find many points in common. But there are certainly some differences in each of the five areas we have considered: cultural environment, business practices, government actions, civil society and the academy.

In order to understand in any depth what is common and what is different in Europe and America it could be useful to examine again their respective cultural roots. First of all, there is the fact that both Europe and America have deep roots in the ancient cultural and political development of Europe, especially before the Reformation in the sixteenth century. I shall briefly present some relevant insights.

We should not forget that in the Middle Ages what we now call Europe had another name, Christendom; and this was much more than a simple name. In the thirteenth century the domain of Christendom extended from Ireland to the Urals and from North Sweden to the Gibraltar Strait in Spain. It is hard to say whether everybody had absolute common beliefs and even less common practices. Apart from the Orthodox schism in the eleventh century, there was a great variety of ethnic groups. However, Christianity endowed people with a sense of belonging and a basic morality for the whole continent.

Medieval Christianity preserved and transmitted Roman Law. The Church herself adopted the basic Roman Law categories, developing and refining them in accordance with the Christian view of the *humanitas*. Monasteries promoted learning which was extended by cathedral schools. In the eleventh and twelfth centuries, and under the aegis of the Roman Catholic Church, universities in Western Europe were born, as institutions of higher education and knowledge development. Scholasticism flourished in the medieval universities of the thirteenth century, where the most outstanding personality was Thomas Aquinas (c. 1225-74). He developed a strong intellectual construction joining together faith and reason and giving responses to the most controversial questions of his time. Aquinas knew Aristotle's works and using Aristotelian philosophy, at least in crucial points, developed a strong philosophical and theological edifice that was to have a big influence in Europe. Even at the present time, one can find outstanding scholars such as Gilson, Maritain, Pieper and Spaemann who have re-elaborated a consistent Thomistic thought. Previously, Augustine of Hippo had used Platonic philosophy for his theology.

Common concepts in Western business ethics, and other forms of ethics, are drawn largely from the Christian legacy, which, as has been said, assumed important concepts of Greek philosophy and Roman Law, along with Jewish moral precepts. Think, for instance, of concepts such as human dignity, the golden rule, concern and responsibility for people, solidarity, a sense of stewardship with natural resources, the concept and content of virtues, and several norms related to the Ten Commandments. Even human rights are implicit in Thomas Aquinas and Francisco de Victoria (Theological School of Salamanca, starting in the sixteenth century, in Spain).

Regarding differences, if we return to European intellectual history, we will be able to shed light on some points. After Aquinas, an important change took place, with significant consequences for ethical theory. In the fourteenth century, William of Ockham introduced new ideas, which meant a breakdown between Aquinas' thought and the philosophical foundation of Christian faith. Ockham proposed *nominalism*, a philosophical approach which denies universal essences and emphasizes individuality, along with a legalistic vision of ethics derived from the arbitrary will of God.

This way of thinking introduced by Ockham eroded the alliance between reason and faith and questioned the moral authority of the Church. Ockham and some Renaissance humanists, such as Erasmus, prepared the way for the Protestant Reformation, at the beginnings of the sixteenth century, which strongly emphasised a faith absolutely separate from reason. The Protestant Reformation had market political implications, including religious wars between Protestants and Catholics, especially in France, disdain for any institutional moral authority, as well as the introduction of a strongly individualistic position both in the interpretation of the Bible and in the relationships between each individual and God. The main Protestant reformers, such as Luther, Calvin and Zwingli found support in the political powers. The Protestant Reformation had a notable influence in Germany, Switzerland, England and the Scandinavian countries, and elsewhere. As a reaction, in the middle

of the sixteen century, the Catholic Counter Reformation, in certain aspects related to theology, ecclesiastical reconfiguration and the emergence of new spiritual movements and religious orders, had a notable influence in others European countries, such as France, Italy and Spain.

In the USA there were no religious wars. Many of the original European colonists came to America for religious reasons, looking for religious freedom. Many were fervent Protestants, specially Calvinists or branches akin to Calvinism and Zwingli (Reformed Church, Puritan, Presbyterian). Other immigrants were Lutherans and other religious denominations. This can help to explain the strong sense of religious freedom and also why religion has traditionally played a large role in American society, including culture and politics. French and Spanish colonization of vast regions of the USA and emigration from Latin America also brought a large number of Catholics to that country. Currently, more than 3 out of 4 American adults identify themselves as Christians.

For centuries in Europe political power has had a great influence on economic activity (feudalism, charters of kings for commerce, etc.) and in culture, mainly in religious affairs (Charlemagne, the Holy Roman Empire of the German Nation). Luther also took advantage of the political power of the German Princes for his protection and to spread the Reformation. The United States has a different history. From the very beginning, the historical separation of Church and state was a matter of fact. Immigrants to America had the spirit of pioneers and a strong sense of entrepreneurship. The religious beliefs of many immigrants emphasised the necessity of constant labour in a person's calling as a sign of personal salvation (Protestant or puritan work ethic) and the duty of working for the benefit of the individual and society as a whole.

At least from the Renaissance, a legalistic view of ethics was spread in Europe and then in America. From the eighteenth century, there emerged in some European countries a casuistic view of the moral, while in America, the necessity of compliance with the law seemed extremely important in a multi-religious and multi-ethnic society which made up the US. This could create a 'compliance mind' which could in turn at least partially explain why codes of ethics are so popular in the USA.

Enlightenment thought was enormously important for both Europe and America. The origin of this movement can be found in René Descartes (seventeenth century), who rejected the human capacity of knowing reality, as stressed by Aquinas. Instead, he gave importance to what is thought rather than to reality, following his famous statement: "I think, therefore I am" (*cogito, ergo sum*). In this way, he conditioned the methodology for those who came after him. Two main schools of thought follow Descartes, in the next century: the Rationalist (Spinoza and Leibniz, among others) and the Empiricist (Hobbes, Locke and Hume, among others). While rationalists defended the view that all knowledge can be gained by the power of reason alone, the empiricists believed that all knowledge has to come through the senses, through experience. Thus the rationalists took mathematics as their model for knowledge, while the empiricists took the physical sciences. Philosophers of this period, during the so-called, "Age of Reason", were great system-builders. They presented unified

systems which included everything from epistemology to ethics and politics. One of them was principally significant for the US, and not so much for Europe, especially Continental Europe, namely, John Locke. Another was David Hume. In his political philosophy, Locke defended the natural rights of life, property and liberty. He also argued that a government could only be legitimate by defending these rights and if it receives the consent of the governed through a 'social contract'. Locke was particularly present in the American Constitution. Hume presented a sentiment-based theory of ethics, and so did Adam Smith with his fellow sympathy-theory. Jurists of the beginning of the eighteenth century, such as Montesquieu and Blackstone also had a considerable influence in founding the US. These thinkers were, certainly, influential in the founding of the US, but the Bible also has an important role in the Founding Fathers of the United States. As Michael Novak has written, "the founding generation [of the United States] moved easily between faith and practical common sense reasoning, indeed mounted upwards on both wings in unison." (2002 p. 6); and to prove this, among many other arguments, he mentions the findings of professor Donald Lutz, who counted 3,154 citations in the writings of the founders; of these, nearly 1,100 references (34%) are to the Bible, and about 300 each to Montesquieu and Blackstone, followed at a considerable distance by Locke, Hume and Plutarch.

In Europe, the French Revolution was a politically decisive deed during the late eighteenth century, while the fall of European absolute monarchies characterised the seventeenth and part of the eighteenth centuries. The Enlightenment philosophy preceded and accompanied the French Revolution. The Enlightenment advocated reason as a means to lead all forms of human activity and to establish an authoritative system which would allow human beings to obtain objective truth about the universe. Kant, probably the most mature philosopher of the Enlightenment, tried to overcome both Rationalism and Empiricism in a comprehensive system of thought, with an ethical theory based for formal principles (categorical imperative) in line with a legalistic vision of ethics.

Two intellectual 'revolutions' of the nineteenth century were important for Europe and to a lesser extent for America, namely, Romanticism and Nihilism. These emerged against the intellectual and universalistic view of the Enlightenment, and also in opposition to aristocratic, social, and political norms of this period. Romanticism emphasized emotion as a source of aesthetic experience. It also legitimized the individual imagination as a critical authority. Nihilism, often associated with Friedrich Nietzsche, is also a radical position against Enlightenment philosophy. Nihilism argues that the world, especially past and current human existence, is without objective meaning, purpose, comprehensible truth, or essential value. Nihilists generally assert some or all of the following: there is no reasonable proof of the existence of a higher ruler or creator, a 'true morality' is unknown, and secular ethics are impossible; therefore, life has no truth, and no action is known to be preferable to any other. Nietzsche proposed the will of power as the basic guideline for survival in life. These subjectivist visions, along with other philosophies developed in the twentieth century in Europe, such as positivism, existentialism and structuralism, have produced an intellectual panorama full of scepticism, a strong

laicism, full of relativism in some matters (abortion, family rights, etc.) but with absolute principles in others (homosexual rights, reduction of religion to a private matter, etc.).

Finally, to conclude this brief synthesis, the European legacy counts with the terrible experience of two world wars in the twentieth century and various totalitarian regimens, the incredible genocides perpetrated under Hitler and Stalin. These terrible events have constituted for the whole world but mainly for Europe, a sort of catharsis, for being permanently in favour of democracy, social welfare and against all kinds of totalitarian political systems.

It is hard to predict the future, but I contend that a certain convergence between Europe and America can take place, without omitting any of their genuine distinguishing characteristics. At the present moment, democracy, human rights and the battle against corruption are some of the points of convergence. The role of the state in encouraging business ethics and CSR can change, but not too fast. In Europe, there is a certain discontent about an excessive intervention of the state in public and cultural affairs, although the role of the state will hardly change. In the USA, public power, civil society and business are undertaking initiatives to increase the practices of business ethics (Sentence Guidelines, voluntary code of ethics for foreign practices), but the traditional government action to combat abuses exclusively limiting the business action is not decreasing (think, for instance on the Sarbanes–Oxley Act of 2002 facing recent financial scandals).

Last, but not least, other basic elements in business ethics can be discovered on both sides of the Atlantic. I would like to mention three. First, the necessity of overcoming the separation thesis (Freeman 1994) by which ethics and economics are two separate realities. The recognition of ethics as an integral part of any business would be a great advancement. Second, the recognition of the importance of virtues for business ethics and, in particular, the recognition of virtues as an essential part of personal competency for business. Third, it would be advantageous to business to recover a rationality open to transcendence as Pope Benedict XVI has proposed, which is to overcome both the narrow rationalism of the Enlightenment and vagueness of most post-modernistic visions common to both Europe and America.

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Part I
Individual Level Business Leadership

Chapter 4

Socratic Questions and Aristotelian Answers: A Virtue-Based Approach to Business Ethics



Edwin M. Hartman

Abstract To teach that being ethical requires knowing foundational ethical principles – or, as Socrates claimed, airtight definitions of ethical terms – is to invite cynicism among students, for students discover that no such principles can be found. Aristotle differs from Socrates in claiming that ethics is about virtues primarily, and that one can be virtuous without having the sort of knowledge that characterizes mathematics or natural science. Aristotle is able to demonstrate that ethics and self-interest may overlap, that ethics is largely compatible with common sense, and that Aristotle’s virtuous person can make ethical decisions rationally. Case studies can help students improve their ethical perception and keep their values from being overwhelmed by corporate culture.

Keywords Aristotle · Case studies · Character · Corporate culture · Principles · Reflective equilibrium · Socrates · Values · Virtue

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Introduction¹

A class in business ethics offers several benefits. One of its primary uses is to expose and question certain presuppositions that economists make. A second, often undertaken by business ethicists whose primary training has been in management-related disciplines, is to help students consider how organizational factors can support or undermine ethics. These are worthwhile undertakings, but they do not directly address the central questions of business ethics: How do we decide what businesspeople ought to do? What is right and what is wrong in business? My argument will be that an Aristotelian approach to business ethics shows how we can answer these questions.

The central questions are difficult, for ethical issues are notoriously controversial. Not only do we disagree about them; we disagree about how we might resolve our disagreements. Students who take courses in ethics discover that philosophers, who seem to think that they have some special knowledge to impart about ethics, have disagreed among themselves for at least two millennia. At the same time, somewhat paradoxically, nearly all of us have strong intuitions about ethical questions, and on occasion emotions to match. We argue, often coherently and sometimes convincingly, about matters of right and wrong.

One way to resolve this paradox would be to claim that ethical questions really do have right and wrong answers and that in some cases we simply have not discovered what they are. Then we would try to discover some principles of ethics that perform the same function as the principles of science, or perhaps logic or mathematics, and do it just as well. This would be a mistake. Ethics is not a science; still less is it a branch of mathematics. If we expect too much of it, we shall be disappointed, and our disappointment may lead to unfounded skepticism about the whole ethical enterprise. Even if we do not become nihilists, we shall probably lose some respect for the wisdom of those who have been our ethical teachers and exemplars.

Suppose, moreover, we could be perfectly certain of what ethics demands. We might still ask why we have reason to respond to these demands. Why is it reasonable – that is, reasonable from the point of view of self-interest – to be ethical? Some businesspeople say that this isn't Sunday School, that they are out for number one, and so on. Others claim that ethics is good business – a means, they seem to be suggesting, to business success. Those who take ethics seriously find little comfort in the thought that the reason to be ethical is that it contributes to the bottom line.

Ethics is not science, and it is not mathematics. It does not justify the kind of confidence that we place in science and mathematics. It does not offer us algorithms like those familiar to mathematicians. It does not offer us principles that look at all

¹A previous version of this paper was presented at the 14th International Symposium on Ethics, Business and Society: "Towards a Comprehensive Integration of Ethics Into Management: Problems and Prospects" held by the IESE Business School, University of Navarra, Spain, May 18–19, 2006. This paper includes some material from Hartman (2006). Thanks for useful suggestions to Professor Domènec Melé and two anonymous reviewers. This work was supported in part by the Prudential Business Ethics Center at Rutgers.

like scientific laws. Talk of ethical principles and especially of their application in practice, which is often difficult, may lead us to expect more of courses in ethics than they can deliver, and to be disappointed with the courses and disillusioned about ethics.

Aristotle's ethical views, which put virtue and character rather than principles on center stage, do not lead to that sort of disappointment. Aristotle argues that ethics does not offer the level of certainty that we find elsewhere, and that it is a mistake to demand that level of certainty of a field that does not have it to offer (*Nicomachean Ethics* (NE), 1985, I, 3, 1094b12-14, 23-27). He does not raise the bar too high, or depict the study of ethics as an abstruse discipline available to only the few anointed ones – professors of moral philosophy, perhaps – who alone can clear the bar. He believes that ethics is available to us all, that correct views about ethics are generally compatible with common sense. In the end, however, he finds truly good character to be rare, in part because rationality is. We can make sound ethical judgments, and the wise among us do so regularly and with good reason. Aristotle does not suggest that we make sound judgments because we have found some foundational principles of ethics. Indeed we do not. What we have instead of foundational principles is a set of judgments and principles that are coherent and consistent with some pertinent facts. According to Aristotle, the study of ethics is continuous with the study of biology and psychology. And how do we know that we have any reason to be ethical? We know, says Aristotle, because ethics is the art of living well. There should be nothing surprising about that.²

Aristotle's views on these issues have resonance today and salutary effects for the most part. In particular, I shall argue, they engender less skepticism about ethics than do the views of Socrates and philosophers like him. If Aristotle is right, the untutored opinions that ordinary good people have about ethics are fairly close to the mark, on the whole. I shall discuss an Aristotelian approach to business ethics, but what I have to say is meant to teach broader lessons about ethics.

Corrupting the Youth

Most of us who have taught ethics or even discussed ethical issues in class have encountered sophomore relativism, with its familiar and annoying slogan: "Who's to say what's right or wrong?" Whether or not our students are true relativists – they

²Throughout his *Physics* and *Metaphysics* Aristotle speaks of substances, including human beings as having form and matter. The central argument of *De Anima*, Aristotle's great work on psychology, is that the soul is an instance of form, the body an instance of matter. His science is teleological: he holds that substances move naturally towards their end, a state that is in some way good for them. That end-state for a human being, the best state, essentially involves rationality, of which humans alone are capable. Throughout the *Nicomachean Ethics* Aristotle calls the end-state *eudaimonia*, which is usually translated 'happiness' or, more accurately, 'flourishing.' It is a state of good character. As Aristotle considers this state definitive of human beings, he does not want to claim that it is beyond the reach of mere mortals.

do, after all, have a lively sense of their own entitlements – they are genuinely skeptical about our ability to make sound ethical judgments. Many sophomores may be skeptics because a year in college has led them to question the opinions and values that they have learned from their childhood mentors and monitors, especially their parents, and nothing solid has replaced the certainties that they have been taught.

Some students who enter college come from religious homes in which verities are passed on without much examination. The parents find, to their intense discomfort, that their children's time in college has undermined the verities and left a kind of amateur nihilism in their place. This creates tension in the family, and the faculty gets some of the blame. If professors respond by claiming that the unexamined life is not worth living, parents and other traditionalists are not mollified. They may decide that there is much to be said for sending one's children to a religious college.³

Some of these skeptical students begin to study business intensively in their third year. By that time they are quite ready to embrace the view that ethics, whatever else it may be, is not a major factor in business. A student who reads Friedman may infer that one can and even should be an egoist and let the Invisible Hand take care of the equitable production and distribution of goods, if equity matters. Acting in one's own best interests becomes more than a pleasure: it becomes a duty. Utility is a matter of getting what one wants. Desires are neither rational nor irrational; rationality is a matter of the efficiency with which a means leads to the satisfaction of some desire. People are egoists, utility maximizers; and if you are for some reason not an egoist, you had better act like one. Ethics, which is often called altruism, is inefficient and even irresponsible. (For disturbing evidence of the pervasiveness of this mode of thought and its devastating effect on students' morality, see Pfeffer 2005). Here it is assumed, usually without argument or even explication, that any reason you have for doing something is based on self-interest. The few arguments that are ever offered for this view are not impressive. If a counterexample is proposed – Mother Teresa, for instance – the response is that Mother Teresa is actually motivated by the glow of pleasure she gets from helping poor people. Quite apart from whether charitable people really experience this glow, the argument trivializes psychological egoism, gives it no empirical bite, for nothing could count as evidence against it. In practice, however, self-interest is typically construed as having to do with money. Agency theory is its embodiment in the management and business ethics literature. Scholars and practitioners assume, without much evidence, that agency theory describes the motivations of senior managers better than does stewardship theory. The claim has a self-fulfilling aspect, since it has led to practices like huge salaries for chief executives.⁴ As Donaldson (2007) notes, the stewardship

³In my experience and that of college administrators with whom I have discussed these issues over many years, this problem is especially common among students who attend state universities and whose parents are not college graduates.

⁴Not only agency theory but most of social contract theory, collective action theory, most versions of the stakeholder approach, and all talk of business and government as devices for achieving mutual advantage seem to presuppose that people are motivated by self-interest of a narrow and simple kind. If this is true, then business ethics is best promoted through incentives designed to

theory of management, which takes managers to be motivated by factors like achievement and responsibility, deserves but does not get the sort of attention paid to agency theory.⁵

Do philosophers bear any responsibility for this state of affairs? Most philosophers would say no, but Donaldson (2007) suggests that they do. He charges them with propagating the notion that there are no right or wrong answers in ethics. Pressed on the point, he argues that even if the philosophers themselves believe that there are right or wrong answers and that they have the right ones, their confidence is misplaced, and that the inference that students draw from philosophers' failure to present them with certainties or even a solid consensus is a negative one: that traditional opinions and values are unsustainable and there is nothing solid to replace them. Philosophers may object to that, and to the second clause in particular, but they do not convince many students.

I know of no research showing that ethics courses undermine ethics, but we can see how it might happen. The Socratic Method, much favored by those who teach classes in philosophy and other disciplines, some in business schools, may be part of the problem. Let us consider the method by looking at its founder.

The Dubious Contributions of Socrates

On the most plausible reconstruction of a philosopher who left no written work behind, we can say a number of things about Socrates.⁶ First, his conversations are about ethics and not about physics or metaphysics or epistemology. Ethics is about improving one's soul; the best reason for being ethical is that it makes one's soul better and makes one a happier person than otherwise. So Socrates undertakes conversations with friends and acquaintances because he aims to improve their souls and his. Second, the immediate purpose of most of his conversations is to define some virtue: piety, justice, etc. Being able to define each of these virtues is a necessary and sufficient condition of having the virtue in question. You cannot be courageous if you cannot give an unassailable definition of courage. In that sense the unexamined life is not worth living; in fact, the unsuccessfully examined life isn't worth much either. This is in part because only a virtuous life can be a good life; so

ensure compliance. I do not believe that it is true. (My thanks here to Christopher Michaelson, whose work in progress on this issue I have found most helpful.)

⁵Some philosophers sympathetic to business (for example, Velasquez, 2001) claim that ethics is about utility, justice, and rights and then go on to argue that free markets are ethical. They provide utility – a lot of it, since they are optimally productive. They provide justice in the sense that one reaps as one sows. They protect rights in the sense that one's transactions are limited only by one's resources. But clearly these claims presuppose certain views – typically capitalist views, in fact – of the nature of utility, justice, and rights. What, a socialist might ask, is the basis for those views?

⁶The testimony of Aristotle in his *Metaphysics* I (1924) and certain linguistic features of the texts permit us to identify some dialogues as representing Socrates' views rather than those of Plato. These include *Euthyphro*, *Lysis*, *Protagoras*, and several others. (See Plato, 1903.)

Socrates suggests, but he does not argue the point to any great degree, as Plato does. Third, Socrates' interlocutors always prove unable to define the virtue under discussion. Nor is Socrates himself able to define it: he can only destroy the definitions that others propose, and he regularly does so. Finally, Socrates' futile search for virtues suggests that most people who believe that they are virtuous are not.

Socrates was tried and found guilty of corrupting the youth, and in particular of teaching them atheism. Defiant to the end, he claimed that the most appropriate 'punishment' would be to give him free meals for life in thanks for his service to Athens. Instead he was executed. The super-patriotic plaintiffs were motivated in large part by political considerations – Socrates had expressed some questionable ideas about Athenian democracy and had some associates among its enemies – but under the prevailing amnesty he could not be tried for treason, and the charge of corrupting the youth was probably a substitute. Still, there seems little doubt that he made powerful enemies by appearing to undermine the authority of the traditional values of Athens.

Aristophanes, the greatest of Greek comic poets, portrays Socrates in *The Clouds* as a sophist: that is, one who teaches students that there is no right or wrong. Sophists, who typically were paid for their services, taught their students how to argue for any conclusion that they liked. The Socrates of *The Clouds* helps one of his students 'prove' that he has a duty to beat his father. The historical Socrates taught no such thing, but it would be reasonable to suppose that he did give some of his students the impression that there is no sound basis for traditional morality and no known way of demonstrating what is right or wrong.

What Socrates might have chosen to say was that traditional morality has stood us in good stead on the whole, and can continue to do so even as we suggest possible improvements. He said nothing of the kind. Perhaps he thought that Athenian traditions had led to a democracy that was little better than mob rule, thence to a brutal and unsustainable empire, thence to a bloody and ultimately futile war against Sparta. And in the end, of course, the Athenians killed Socrates. Why should a good person take the ethical judgments of this community seriously?

If Socrates encourages skepticism in his conversations, it is in large part because he raises the bar too high. Being able to create a definition of some item by finding what all instances of it have in common may not even be possible. As Wittgenstein argued and Aristotle suggested,⁷ words can be meaningful and useful without definitions that are unitary in that way. More to the point, one can surely be pious or loving or courageous without knowing how to define the virtue in question. We might say, uncontroversially, that in certain difficult cases we make better judgments if we have some clue about the features that make an act brave or reckless or cowardly.

Socrates has a stronger view: that there really are true propositions that set out the necessary and sufficient conditions of certain virtues, and that not knowing these conditions is fatal to ethics, though one is a little better off if one knows, as Socrates

⁷Wittgenstein (1953, 31f). For a discussion of Aristotle's views on this subject, see Owen (1967).

does, that one is ignorant. Today moral philosophers are more likely to say that there are no algorithms for discovering right or wrong answers, or even for applying ethical principles on which we can reach consensus. That sort of statement could contribute to corrupting the youth if it were coupled with the claim that the absence of such algorithms (or clear and unassailable definitions, as in Socrates' case) is fatal to ethics, both theoretical and practical. Most moral philosophers do not make that claim, but some students might draw the inference.

It is a daunting fact that students often learn something quite different from what professors try to teach them. Insofar as moral philosophers claim that ethics is primarily about principles, they may be setting their students up for disappointment and cynicism.⁸ It does not take students long to realize that, even assuming that principles related to utility, justice, and rights are all pertinent to ethical assessment and decision, applying the sometimes competing insights of each sort of principle to complex situations in the real world is difficult and often inconclusive; in fact, it seldom settles a disputed case. If students believe that ethics ought to be sound in the way logic or geometry is sound, then they might well infer that there is no fact of the matter in ethics. Making principles central to ethics does not have that implication, but it may leave that impression. Recognizing that principles by themselves do not suffice for ethical guidance and that ethics has something to do with character is a good antidote to cynicism, as I believe Aristotle shows.

Aristotle's Response

Aristotle's approach to ethics solves, or at least alleviates, these problems. In particular, it does not raise the bar too high, it does not rely unduly on principles, and it does not reject common opinions about ethics. Aristotle accomplishes all this in large part because he takes ethics to be primarily about character, which, following Kupperman (1991, p. 17), we may define as one's standard pattern of thought and action with respect to one's own and others' well-being and other important concerns and commitments. Character includes virtues and vices and entails certain values, and it involves certain emotions as well as actions. One's character defines the sort of person one is, and it includes some personality traits that are not of immediate ethical significance, such as sensitivity and humor. According to Aristotle, maintaining your character is tantamount to continuing your life (see *NE* IX, 4, 1066a13–29, b7–14).

Emphasizing the importance of character and virtue in this way need not, and in Aristotle's case does not, undermine principles. As generosity is a virtue, for example, one ought to act on the principle that one should happily lend money to needy friends even if they may not be able to pay it back. But principles are secondary, in the sense that we act on principles of generosity because we are generous, and not

⁸Some instructors begin by teaching their students several ethical theories and then ask them, on exams or in class, questions like this: In this situation, what would you do if you were a utilitarian? A justice theorist? A rights theorist? That really is a disaster. (See Derry and Green, 1989.)

the other way around. If you are a generous person, your immediate thought in lending the money to a friend is not that one ought to be generous but that Jones needs help. A friend's need is a reason for action, from your point of view.

Virtue ethicists do not believe that we can find principles that will tell us how needy the friend should be, or how much money we ought to lend. Nor can we find any algorithms that show us how to prioritize competing principles. This is hardly surprising, readers of Wittgenstein would say.⁹ If we did have meta-principles governing the application of principles, then we would need meta-meta-principles governing the application of meta-principles, and so on to infinity. In dealing with ethical issues we must satisfice much as in management; and as in the case of management, we cannot find the optimal way to satisfice.¹⁰

Contrary to what Socrates suggests, having a virtue is not primarily a matter of knowing something in the discursive sense of being able to produce a principle or the definition of a virtue, which typically implies a principle. To have a virtue is to have certain enduring desires that can serve as reasons to act because they have to do with our well-being and other important concerns and commitments. So a person of generous character acts generously, wants to do so, and thinks it good to do so. If you are generous, you are and want to be the sort of person who is normally motivated by thoughts like this: "Jones needs help, so I'll help him." The next-best thing, though short of a truly generous character, is mere acceptance of one's obligation: "Jones needs help, so I suppose I ought to help him, so all right, here I go." To be a person of truly generous character entails having and wanting to have a settled disposition to help a friend in need, and emotions to match. So having a virtue involves having what Frankfurt (1981) calls second-order desires. Some of our enduring desires, especially those concerning the sort of person we want to be, we call values. To have a character of significant strength is to have values that consistently guide one's actions.

Parents tell children not to lie, but many parents raise their children to be honest – that is, to be inclined not to lie, to feel some repugnance when lying even in circumstances that might justify it. Virtues involve attitudes. Consider gratitude: when you give me a generous gift, I should not only thank you but also be grateful. Aristotle claims that, while you cannot make yourself feel grateful on a particular occasion, you can in time become the sort of person who is grateful on appropriate occasions. (See *NE*, I, 3, 1095a2–13)

The usual process of moral education is a gradual one, part of growing up in a good community.¹¹ In fact the needs of a good community help determine what counts as virtuous. Experience in that sort of community is the best teacher, and it

⁹ Wittgenstein (1953, pp. 67–77).

¹⁰ So Winter (1971) argued persuasively, using an infinite regress argument

¹¹ Aristotle argues that one's character is formed by one's community but that one is nonetheless responsible for one's character. Though Aristotle is not a strict causal determinist in the modern sense, it is clear that he would not accept that determinism lets the agent off the ethical hook, as Donaldson (2007) seems to think it does. A determinist can hope that a good course in ethics will be one of the causal factors affecting an agent's behavior.

requires the opinions of good people. One comes to apprehend courage by first being told as a child that this or that act is courageous, or not courageous but cowardly. Over a period of time one gets into the habit of acting courageously and comes to have a pretty good sense of what courage looks like. Then through a process that Aristotle calls dialectic, which we shall discuss, one acquires a fuller understanding of courage and its contraries, cowardice and foolhardiness, and can reliably identify instances of them.

A virtue is more than a dispositional state.¹² A courageous person, for example, is indeed disposed to do what is appropriate given the risks involved. But rationality is involved as well, since the courageous person can distinguish courage from machismo, and knows why courage is a good thing and recklessness and cowardice are not. Acting courageously just by imitating courageous people will not suffice. To be truly courageous requires one to have a clear idea of what one's values are and to be concerned about the kind of person one is. All this demands a high level of rationality, though a courageous person is not required to give an unassailable definition of courage or to prove beyond any possible doubt that a certain act is courageous.

Virtue ethics therefore does not raise the bar as high as Socrates does, or as proponents of principles sometimes do. Aristotle claims, surely correctly, that ethics is not like geometry (*NE*, I, 7, 1098a29–34). It is more like navigation (*NE*, III, 3, 1112a5–7) or medicine or comedy (*NE*, IV, 8, 1028a23–34). There are rules, but they are not as well defined as those of geometry, and they are more difficult to apply to the real world. One has to develop a feeling for it. But that navigation and medicine are unlike geometry does not imply that they are unimportant or that there are no right or wrong answers to questions about navigation or medicine. Indeed, there are few areas of knowledge in which wrong answers are more spectacularly exposed than in navigation and medicine.

Philosophers do often argue to no consensus over the details of ethical theory, but their disagreements do not undermine ethical behavior any more than those among organization theorists undermine management. No serious scholar would deny that there are right answers in organization theory. Many would say that the principles of management admit of exceptions and that they are not always easy to apply. Consider Donaldson's (2007) discussion of a familiar principle of management: a large, diversified company will do better with a divisional structure than with a functional one. But exactly how large and how diversified must a company be to justify the expense of reorganization into divisions? And what if a company has too few talented managers for a divisional structure? There are useful principles here, but there are also individual cases in which even the best scholars and the most successful managers will be unable to reach an agreement.

¹²As Alzola (2007) and others have noted, organization theorists sometimes construe mental states or events as dispositions. For a number of reasons that we cannot explore here, that is not a good idea. In any case, it does not make individual statements about mental states and events verifiable or falsifiable; nothing can do that, and it need not be done. To try to operationalize or to give a dispositional analysis of any state or event that characteristically involves rationality is an especially bad idea.

Experienced managers make these decisions well. Aristotle believes that wise and experienced people can make ethically good decisions even if they cannot give airtight reasons for what they do. Aristotle respects the opinions of experienced people.¹³ Whereas Socrates and some other moral philosophers seem to demand a kind of philosophical expertise that not only does not depend on received wisdom but also undermines it, Aristotle holds that we should respectfully consider the opinions of people widely regarded as wise. In terms more familiar today, we should think of opinions about ethics as data that successful theories explain.¹⁴

There is something solidly realistic about Aristotle's approach. In general he takes people as they are in a way in which Socrates does not and Kant, the greatest theorist of principle-based ethics, does not. He offers an account that explains human behavior. That Jones is courageous makes him praiseworthy, but it also explains why he rescued the child from the pit bull. Aristotle acknowledges that on his theory not many people are sterling characters, but he does believe that our nature supports and even shapes ethics more than it opposes it, that most of us have a pretty good idea what we ought to do, that ethics is not at all about radical selflessness, and that what is politically possible helps determine what is ethical.¹⁵

In the next three sections I want to look at three issues raised so far. The first is whether I have good reason to be ethical. Is ethics justified only if it is good business to be ethical? Or, as an agency theorist might say, only if ethics serves my personal interests? The second is how ethics takes account of our common opinions about right and wrong. My position on this issue, which owes much to Aristotle and Rawls, is that it is rational to accept a particular theory, whether a moral or a scientific one, in part on the basis of its scope and coherence. There is both moral and scientific knowledge available, and neither kind needs an unassailable foundation. The third issue is whether virtue ethics deals adequately with morally complex situations. I want to defend virtue ethics against the criticism that it tells us no more than 'be courageous.' Taught properly, virtue ethics heightens students' understanding of these situations and in that way improves their decisions. But it is not geometry.

¹³ See, for example, his discussion of weakness of the will in *Nicomachean Ethics*, Book VII.

¹⁴ One might respond to criticisms of philosophers (Donaldson, 2007) by asking, ironically, who should address questions of right or wrong if not philosophers. Organization theorists, perhaps? To which Rorty (2006) would reply, yes, and psychologists and literary critics and many others. It is an interdisciplinary task.

¹⁵ Aristotle today would no doubt extend the point to organizations. What counts as a virtuous employee is determined in part by the requirements of the organization if it is a good organization. If so, then business ethicists ought to be aware of what organization theorists say about the structural and other characteristics of good organizations.

First Issue: Character and Interests¹⁶

Utilitarian and other principles tell us what we ought to do, but they do not necessarily tell us why an agent is better off for being ethical. One good reason for being a contributor to society, as utilitarianism would have us do, rather than a free rider is that society in the aggregate fares better if all are contributors rather than free riders. But the best off are those who can arrange to be among a small number of free riders; so a selfish person might ignore utilitarian rules and ride free – not vote or cheat on taxes, for example – without destroying the benefits of others' good citizenship. There appears to be no self-interested reason for good citizenship. What is needed, therefore, is some way of ensuring compliance with utilitarian rules. But perhaps there is a deeper problem here: utilitarian theories do not typically specify what counts as self-interest, and do not offer us a good characterization of the good life that utilitarianism is supposed to promote. Aristotle does.

Aristotle holds that your character is a matter of what you enjoy doing (*NE*, II, 3, 1104b5ff.): good things if you are a good person, bad things if you are a bad one. Good character is a matter not only of doing the right thing but also of having the right desires and emotions (*NE*, X, 8, 1178a9–24, and elsewhere). If you do the right thing reluctantly, you are not really a person of good character, and virtuous action may not be in your best interests. You should be grateful for kindnesses, angry if and only if you are seriously wronged, sympathetic towards the wretched, glad to help your fellow citizens. The person of good character has an enjoyable life doing good things, unless misfortune intervenes. So emotions of the right sort support good character, as Frank (1988), Elster (1998), and many others have also argued.

Aristotle claims that for a good person virtuous behavior is self-interested behavior. He views ethics as being about the good life for the agent, which is a matter of living according to nature – humankind's communal nature – and so being happy and fulfilled. Since human beings are social creatures, the good life, hence good character, involves living satisfactorily in a congenial community. So your virtues cause you to benefit your family and friends and people in your community. There may be costs associated with virtue, but a virtuous person is better off on the whole for being inclined to do the honest or courageous thing. But can Aristotle give a convincing argument against those who claim to enjoy being successfully rapacious?

A reflective business student might ask why is it in my interest to be a person of good character rather than a rapacious person. Why can I expect to enjoy it more? On Aristotle's view, those are wrongheaded questions. We should instead ask this one: given that you want to serve your own interests, *what do you want your interests to be?* Do you want to be the sort of person who can enjoy only overwhelming financial success? Or the sort of person who enjoys a life in which work plays an important but not dominant role and in which that work offers challenge, variety, growth, association with interesting people, and compensation that lets you live

¹⁶For a more detailed account of what follows see Hartman (2006).

comfortably? The question is not which one business students prefer. It is a higher-order question about *which one they would choose to prefer* if they could choose their preferences. That question cannot be readily answered by reference to self-interest, since it is hard to see what would count as a straightforwardly self-interested answer to the question, “What do you want your interests to be?”

There is, however, a good answer to that question if, as is probable according to Belk (1985) and Kasser and Ryan (1996), cited in Haidt (2006), most students who give the second answer are happier in the end than those who give the first. Great wealth is hard to come by, and many who achieve it enjoy it less than they expected to. Many who have retired from a financially successful career say that if they had it to do over again they would spend more time with their families. They failed to do so, probably, because they were committed to a conception of the good life based on peer pressure rather than reflection.

What should students’ reflection tell them about choosing a conception of the good life if it cannot be done just on the basis of self-interest? Surely a good life must be achievable and sustainable. Aristotle believes it should also have a certain wholeness, rather than being a series of unconnected experiences; this he suggests in saying that the continuation of character is the continuation of one’s life. Happiness requires desires that are rational in the sense of being consistent with one another and with one’s values, and actions that are consistent with one’s desires; so he says at *NE*, IX, 4, 1066b7–11. He is echoed by psychologists like Festinger (1957), Chaiken et al. (1996, p. 557), and Haidt (2006, p. 225f).

Aristotle clearly does not regard rationality as just a matter of the efficiency with which a means leads to the satisfaction of some desire, as Hume and many mainstream economists hold. But surely there is something irrational about valuing (say) health while eating and drinking to excess, smoking, and avoiding exercise; and there must be something irrational about not valuing health at all. It is also irrational to have inconsistent values and desires, or to be unclear about what one’s values are.¹⁷

Consistency of desires is not sufficient for good character or for happiness, but it goes some distance in the right direction. There are difficulties in prizing both idleness and personal achievement, or heavy drinking and fitness, or feeling free to offend and having many friends. But cannot you do well if you hide your hostility or rapacity? Aristotle says no: if you do it for strategic reasons, as when people are watching, you will be doing something that you do not enjoy (*NE*, IX, 4, 1066b7–14). In any case, like it or not, you are a communal being, and your happiness depends in part on your being a productive and congenial member of the community. Haidt (2006, pp. 92–4, 105, 113, 131) refers often to a flood of literature that suggests that personal and particular connections are essential to happiness. Desires that are at odds with this fact about us can create serious problems. So you do have good

¹⁷To understate, the nature of rationality is a matter of controversy. Rationality has a normative aspect, and differences in definition reflect different views of how we should think.

reason to be virtuous, and not merely to act sometimes as though you were. It is in your nature.

Most of us would recognize a greater variety of satisfying lives than does Aristotle. In fact, most of us think that the ability to choose what sort of life to lead is itself a good thing. At the same time we respect the limits on that variety that are implied by the requirements of our rational and social nature. As business students plan their lives, those who teach business ethics should encourage them to consider their strengths and limitations, their opportunities, and what they can and cannot learn to enjoy. Some of them will indeed turn out to enjoy a life of intense competition and high risk, but it is not appropriate to encourage them to assume ahead of time either that whatever they happen to want is possible or that they will enjoy it if they get it.

The essential matter, for both Socrates and Aristotle, is the state of one's own soul. The chief end of man¹⁸ is to achieve psychic health, which is self-evidently a good thing. Or if it is not self-evidently good, it is attractive to almost anyone, surely including most business students. From Aristotle's point of view, to say that there are no right or wrong answers is to say that there is no difference between happiness and unhappiness, or between a fulfilling life and a miserable one. That is truly absurd,¹⁹ an affront to common sense. That is a major problem for Aristotle, who takes common sense very seriously.

Second Issue: Ordinary Opinions

Socrates has little respect for common opinions, or even those of distinguished citizens, about ethical issues. Plato goes further: real knowledge, he claims, is not about the world of space and time at all. What is truly real, the object of genuine knowledge is the eternal Form. Certainty has a powerful grip on philosophers. Throughout modern western philosophy there have been thinkers who doubted that we could have knowledge of anything beyond the contents of our own minds, except perhaps mathematics. The challenge for epistemology was to show how we could infer defensible propositions about the world from our knowledge of the furniture of our minds, and it proved to be a formidable task, perhaps even a hopeless one. And if that was hard, it was harder still to find some basis for ethics – answers to the

¹⁸These words, from the beginning of the Shorter Westminster Catechism, are consistent with the unfortunate view of Aristotle, though perhaps not of Socrates, that women are morally inferior to men.

¹⁹It is not absurd, however, to allow that two people of good character might sometimes make different decisions because they have slightly different values. You might believe that justice requires blowing the whistle in a certain case, while I believe that loyalty requires finding some other way to deal with the problem. It may be a matter of what you can live with and I can't. The difference does not imply that one of us is wrong. But blowing the whistle out of sheer vindictiveness and not blowing the whistle out of sheer cowardice are both wrong.

questions “What ought I to do?” and “What reason have I for doing what I ought to do?” Clearly these questions were beyond the reach of common opinion, even of science. Only philosophers could handle them.

Aristotle does not think this way. He does not demand ironclad certainty. He does not consider philosophy a discipline discontinuous with science or ethics. He does not worry unduly about our knowledge of the external world. His view seems to be that his first task is to start with common sense and make it coherent, whether we are talking about biology, psychology, or ethics. His conclusions – his views on form and matter, his definition of the soul, his conception of flourishing – are not humdrum, but he gets to them by starting with familiar and widely shared opinions and refining and explaining them. His notion of a person of good character sounds plausible to us, as it must have to his contemporaries. He does not put forward radically new conceptions of courage, justice, or friendship. He does not in the least suggest that becoming a good person is a superhuman achievement, though it is not easy or even very common. The effect of the *Nicomachean Ethics* is not to undermine our ideas about ethics but to refine and rationalize them.

For those who want to contemplate ethics Aristotle has a process called dialectic, which is emphatically not hostile to common opinions. On the contrary, it starts with them, with the intention of finding principles that are consistent with most of those opinions and explain them, or improve on them insofar as they can be shown to be inadequate in some way (see *NE*, VII, 1, 1145b4–8, for example).

In the best case, one’s beginnings (*archai*) form a coherent whole. According to Aristotle, the *archai* with which we begin are particular moral judgments or intuitions. Aristotle unfortunately creates some confusion because the dialectical process leads to a principle that he also calls a beginning (see *NE* I, 4, 1095b6 and I, 7, 1098b2, for example). Aristotle seems to have in mind something like Rawls’s (1971, pp. 48–51) reflective equilibrium. In that process one compares one’s principles and one’s considered judgments about particular cases. If they do not form a coherent whole, one must adjust one or both in an effort to create an internally consistent set of principles that are also consistent with most of our judgments on ethical cases. There are no unassailable propositions that serve as the foundation of all ethical knowledge.²⁰ Neither the principles nor the judgments are prior; each is subject to adjustment by reference to the other. In the case of wide reflective equilibrium, so called by Daniels (1979), we bring in pertinent science, settled beliefs about human nature, and other facts as background.²¹ Wide reflective equilibrium seems close to Aristotle’s views. According to Aristotle, at our moral best we have a set of background beliefs, intuitions, and principles that cohere, with emotions to match. Rawls has in mind logical rather than psychological coherence, whereas Aristotle seems to be thinking of both, although he does not sharply distinguish them.

²⁰ The same is true in epistemology; most philosophers would now say, but they would not infer that skepticism is the right position.

²¹ See M. Calkins (unpublished) for an application to wide equilibrium to virtue ethics.

One difference between Aristotelian dialectic and Rawlsian reflective equilibrium is that Aristotle is a virtue ethicist who focuses on the good life for the agent. On the side of principles, Aristotelian dialectic will include statements of value – definitive statements about what the agent considers part of a good life. If the argument of the previous section is sound, anyone will have good reason to be honest and courageous, for example. But if there is a range of possible good lives, then you and I might reasonably differ about the value of (say) generosity, or the desirability of the life of an investment banker as opposed to that of a professor. We are far less likely to differ about the value of honesty.

Aristotle does not claim that those who go through the process of dialectic will find principles that apply perfectly to complex situations. Ethics still is not geometry. But the principles that one does have will be clearer and more defensible, though possibly somewhat more complicated and not always easily applied. It is possible that certain of one's values – for example, values that shape one's view of appropriate gender roles – will have to give way. One will have better and more trustworthy intuitions for those situations in which principles compete or are hard to apply. If all goes well, one's intuitions will lead one to apprehend the situation under the right principle rather than on a principle that social pressure forces on one, or one that rationalizes one's preferred behavior. There is some evidence that the process can have good results. Haidt (2001, pp. 819, 834, 829) claims that those with philosophical training are more likely than others to reason through ethical problems, rather than rationalize, and act on the conclusions.

The process is not wholly unfamiliar. We all have ethical intuitions and we all have some principles that sound promising, and our discussions of ethically significant acts or situations often have the structure of reflective equilibrium. Consider, for example, the Ford Pinto case, in which Ford legally made and sold a very small car that often exploded when hit from behind, in part because the fuel tank hung just ahead of the back bumper. Many students will state the principle that it is morally wrong to put a price on human life, as Ford and/or NHTSA apparently did in determining how much it would be rational to spend on safety. Some will say that we must value human life above all else. They will also react with indignant condemnation of Ford when they hear a description of what happens when a Pinto is hit from behind. A successful discussion of the case will raise problems about both the students' principle of the value of life and their judgment on Ford. The principle is plausible, but in fact we do regularly, though often implicitly, put a price on a human life when we decide how safe to make a product whose use might have fatal consequences. If that is necessary, then we have good reason to reject the plausible principle. As for the intuitive condemnation of Ford, who has actually put the price on a life? If I pay more to buy a Volvo, am I not setting the price on my head higher than if I buy a very small car?

One of the discoveries that students should make in such a discussion is that there are many different ways in which a situation may be described. The passage of a certain law on auto safety can be framed, from a utilitarian point of view, as saving lives. From the point of view of rights, however, it can be framed as an unwarranted diminution of our autonomy in making important decisions about our

lives. In a characteristically dialectical conversation we bring utility-based and rights-based principles to bear, and we seek a way to make them fit together and fit our intuitions – possibly after some adjustment – as well. We never get to the end of the process, but we become better at understanding and describing situations correctly, and therefore at making better judgments. In particular, our ethical perception improves.

Third Issue: Perceiving Correctly

Aristotle claims that the person of good character perceives a situation rightly – that is, notices and takes appropriate account of the salient features of a situation. As you perceive that a particular figure is a triangle, so you perceive that a particular act is (say) a betrayal of trust.²² According to Aristotle, perception involves imagination (*phantasia*): the faculty of imagination enables you to understand what a perceived object is, or grasp the ethical quality of an act. You are morally responsible for understanding the act correctly – that is, for framing it right. To get it wrong – that is, to fail to apprehend the ethically salient features of the situation – is a sign of a bad character (NE III, 5, 1114a32–b3). A person of good character will perceive that a certain act is courageous rather than foolhardy, generous rather than vainglorious, right rather than wrong, and will act accordingly. An irascible or phlegmatic person will take offense, or not, inappropriately. Weakness of the will, Aristotle suggests, is sometimes the result of wrong framing (NE VII, 3, 1147a32–b6). *Moral imagination* is the name we now give to the ability to frame ethically significant states and events (see Werhane 1999, for example).

Tversky and Kahneman (1981 and elsewhere) show how important framing is.²³ One of their experiments shows that people judge and respond differently to a certain state of affairs as accurately described in different ways: whether they are told that 20% will survive some action or that 80% will die as a result of it makes a great difference as to whether they would choose the action. This indicates a certain irrationality; in particular, it suggests that people may make judgments and take actions in large part on the basis of how they describe a complex situation to themselves. You can frame eating a doughnut as a pleasurable experience or a fattening act, as it is both; but a person concerned with health should take the second way of framing rather than the first as salient. A good accountant will frame the Enron-related tricks as misrepresenting the financial position of the firm rather than as good client service. Those who teach business ethics face the task of teaching students to do a better job of ethical framing.

A typical business course will not likely address this problem, for it does not usually put an ethical frame around the problems and issues that it covers. Insofar as

²² But remember that geometric accuracy is not possible in ethics.

²³ N. Gold (unpublished) includes an acute discussion of this point, and of framing in general.

a business ethics course merely helps students become more fluent in the language of right and wrong, it enriches their moral imagination and increases the probability that they will give salient descriptions of morally significant situations.²⁴

Your environment will influence the way you frame a situation: you will likely do it as others do it, as is the custom in your profession, as the client wishes, etc. Consider the Milgram (1974) experiment, in which experimental subjects willingly administered what they believed to be painful shocks to innocent people who had given wrong answers. One way to interpret the outcome is to say that most of the participants did not see themselves as causing pain to an innocent subject but instead as following directions and helping Dr. Milgram in his important work. Your ego will be influential as well: you are likely to describe your failure to confront the boss as a piece of thoughtful diplomacy, whereas others will see it as self-serving and cowardly. Your interests will influence the framing as well: you tend to argue for the moral rightness of actions that favor you, and to describe those actions accordingly. This is a form of rationalization, in which one begins with a conclusion and then attends to the features of the situation that support one's conclusion – the opposite of the way in which Aristotle claimed that ethical reasoning should go. No doubt this sort of thinking afflicted the Arthur Andersen accountants working for Enron.

One of the worst kinds of perceptual mistake is overvaluing good results because they are nearer to hand. Mischel (see Shoda et al. 1990, cited in Haidt 2006, p. 17f) discovered that small children who were able to postpone gratification by forgoing an immediate treat and getting two treats a little later were more likely to grow up to be successful adults in many respects. In a case like this, one wants to do action A but has an overriding, longer-range, more inclusive, more rational desire for action B, which is incompatible with A but more desirable. One might even want A but not want to want it, as in the case of an addiction: one wants to smoke but wishes one did not.

The ability to frame correctly, a significant component of good character according to Aristotle, is threatened from many sides. We have evidence that young children are able to frame and act accordingly, or not. We have evidence that people frame as those around them frame. And now the question is: how can we help our students improve their framing? At the very least we ought to be able to show them that there are alternative ways of framing situations. That is a start, but we want to avoid giving the impression that one way is as good as another.

It will be helpful to teach business students about social psychology. Those who teach business ethics talk about organizational culture, for example, out of the conviction that as employees the students will be able to respond to it by recognizing it and taking its possible effects into account. Former students who have learned about the Milgram experiment in a business ethics course testify that they do sometimes think of it when they are in similar situations, and act accordingly. Beaman et al. (1978) show that people can be inoculated against crowd-induced culpable

²⁴One could write a further article and much more on the subject of how language frames the world. In writing such an article, one would probably discuss the way in which even the simplest reports of our experience are “theory-laden.”

indifference by being taught to recognize the crowd's influence and to act appropriately despite it (see Slater 2004, p. 109f).

Corporate culture in the usual sense is not the only threat to virtuous action that business students should know about. One of the most serious threats is the looming prospect of failure. There would have been no WorldComm scandal if that company had not found itself faced with growth objectives that were unattainable but had to be met or the stock price would tank. It was wrong and irrational for management to falsify its profits, but there would have been no particular temptation to do that if the company had not found itself heading towards the edge of a cliff. If senior managers had had the opportunity to plan for that situation, they might not have decided to pursue a course of action that was bound to end in catastrophe.²⁵ Contingency planning, especially in a high-risk environment, is part of good management. This suggests, what is not at all surprising, that a well-managed company, like a well-governed community, provides an environment more supportive of ethics, other things being equal.

It is best to think about problems of this sort well in advance. If managers are aware, as Aristotle was, of how easily stray desires and emotions and social pressure can divert us from our most rational intentions, they should try to avoid getting into those situations in which they are vulnerable. This is 'self-management,' which Elster (1984, 1985) has acutely discussed. Finding ways of protecting the company from the kind of bad behavior that emergencies encourage is a corporate form of self-management. Graduate school is not too soon for thinking this way, and a business ethics class is a good place to consider how foreseeable but unforeseen emergencies may sway those whose character is vulnerable – that is, most people.²⁶

These are issues about character. What Aristotle means by character encompasses not only principles and values but also the readiness to act on them and the ability to see how to do so in a particular situation, however complex or difficult it may be. Some people sincerely espouse a certain value – say, the importance of courage – but do not act on it because they do not recognize that speaking one's mind in this situation is what courage requires. They are sincere, but they are not courageous. An organization can do that to those who live there. On the basis of a number of studies of the impact of corporate culture Chen et al. (1997) reach the important conclusion that ethical behavior depends on the employee's ability to

²⁵ Darley (1996) provides evidence that people in a corporate setting may undertake an activity – a cover-up, for example – that will eventually unravel and leave the situation worse than it would have been.

²⁶ Harman (2003) and Doris (2002) argue that most people are so vulnerable that there is no point in taking character seriously. For an opposing view, see Alzola (2007). The question whether factors internal or external to the agent are the real determinants of behavior is an old one. Posed that way, it invites oversimplification. The controversy is a version of the argument about free will vs. determinism. The best answer is this: it depends on the agent. Some people are better at rational self-management than others, and in that sense (the only sense worth worrying about, *pace* Donaldson 2007) they have more free will. One person rescues the child from the pit bull; another does not, and afterwards wishes that he had. Courage and its lack explain these actions, and it is the courageous person who acts more autonomously.

recognize ethical issues – to frame certain situations correctly from an ethical point of view – and that this ability appears to be a function of corporate culture more than of individual employees' attributes.

How, then, does a person of good character make a decision in a complex situation? It will not suffice to tell yourself to be brave or honest or just, but it is true that the kind of person you are will have as much to do with the decision as will your reasoning about it. Dialectic has a role here, but it is not primarily to facilitate specific decisions. It is to give you somewhat sharper, though still not perfectly sharp, principles and intuitions. Under the influence of dialectic your reasoning about specific issues will be better because you are better at noticing and evaluating aspects of the situation that people of less character do not handle so well. You will justify your decisions by appeal to whether their consequences are favorable, whether the decision process is fair, and whether anyone's rights are have survived being violated. Almost anyone can do that, but with dialectic you will do it better because you will be better at identifying the aspects of the situation that are most important.

One might object that being good at dialectic will not protect people from bad cultures or keep them from rationalizing. But Haidt's (2001, pp. 819, 834, 829) argument, noted earlier, suggests otherwise. No doubt dialectic is best done before the crisis arises, if possible, but it appears that what one decides in a cool moment will influence what one does when the moment is warmer.

In part because one cannot accurately calculate with all the variables in mind, in part to avoid rationalization, a person of good character will often satisfice by sticking with certain nearly unexceptionable rules, such as, "We don't lie to our employees. Period." In some cases the decision will have to be an intuitive one. You may say, "We're just not that kind of company," or "That's something I'm just not prepared to do." Whether anyone finds that sort of account (or non-account) convincing will depend in part on your credibility. We believe the Jim Burkes of the world when they say that they are doing something because they care about the welfare of their customers. We do not believe the Ken Lays.

Ethics and Strategy: The Value of Stories

Teaching case studies helps students learn to see business issues as moral issues and to grasp their salient features. The case study method suits business ethics as it suits strategy. In a typical strategy course the students read a text and then consider case studies that challenge them to apply the principles in the text to a real situation. This is the beginning of the process of developing their intuitions about strategy. In real life corporate strategy there is much to be said for trusting the intuitions of an intelligent person with a good track record. When a manager makes decisions about the strategies to be undertaken by certain strategic business units, there will be some easy cases but also some less obvious cases, as when a group of weak SBUs can together achieve economies of scale or use slack resources. There the experienced and wise manager must make a largely intuitive decision – that is, must satisfice.

Some managers are consistently better than others at framing these situations appropriately. So, for example, one might see a business as low-profit or high-cash-flow; and the strategic situation may determine which description is salient. Successful strategists often cannot say in any detail how they favor one frame over another. Their track record is evidence of their ability to frame situations correctly.

Using case studies in ethics gives students experience that supports the development of their moral imagination. Complex case studies exercise their moral judgment about particulars, as when justice and economic efficiency conflict. In looking at a case and considering the many ways in which one can frame a situation and which ways of framing capture its salient features, students are developing moral imagination and thus practical wisdom and thus good character.

Can students also gain in critical understanding of their actual and possible values? At the very least they can reflect on what is most important to them and how to protect it. Reading fiction is a way to do this; in fact, Rorty (2006 and elsewhere) argues that literature is better for this purpose than is philosophy. Sometimes non-fiction will do equally well. Michael Lewis's *Liar's Poker* (1989), for example, can help students to reflect on their values. Does Dash Riprock lead a good life? Would you like to be addicted to dealing? Is the Human Piranha's approval a good thing? Why? Is selling equities in Dallas inappropriate for anyone with any self-respect? Is there any reason to be contemptuous of people who actually enjoy that kind of life? Does Salomon Brothers of that era resemble the Milgram experiment? Knowing about Salomon or Milgram may enable one later to stop and reflect, and to undertake moral reasoning rather than rationalization. There is some encouraging evidence about the possibility of doing that (See Beaman et al. 1978).

If students learn from reading *Liars Poker* or by some other means how a strong organizational culture can affect one's character, then they will know that the choice of an employer is a most important one. Having been in a certain organization for a while, I may like being the sort of person who enjoys acting ruthlessly, or perhaps the sort of person who takes satisfaction in maintaining a professional attitude. If Aristotle is right, by acting ruthlessly or professionally I can become a ruthless person or a real pro. For some of our students, choosing an employer will in effect be choosing which desires to cultivate, hence to some degree choosing a character. A measure of self-knowledge, a component of good character, will lead you to protect your values by choosing congenial environments, including careers and workplaces, because character is vulnerable, as Milgram and others have shown. This requires some careful and acute thought. You must be able to assess a corporate culture, to foresee the consequences of a risk gone bad, to understand the opportunities for chicanery that some professional relationships will present, and to be prepared to avoid if possible and resist if necessary the pressures to do the wrong thing.

To teach students this lesson is to help them understand the importance of making an employment choice thoughtfully. Perhaps it is also possible to inoculate them against unconsciously taking on the values of just any corporate culture. At best they might consider the advantages of the values associated with good character.

Conclusion

Those who teach business ethics can avoid undermining students' good values and leaving cynicism or relativism in their place. The correct lesson is that becoming ethical is not a matter of discovering arcane principles that ground our decisions in certainty, for ethics is neither arcane nor certain. Being ethical is primarily a matter of being a person of good character, with virtues, emotions, values, and practical intelligence to match. The ethical values that experience teaches us are at least the beginning of wisdom about ethics. Ethical progress is a matter of refining and adjusting these values, learning to bring them to bear in making decisions, and protecting them from hostile environments.

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Chapter 5

The Virtuous Manager: A Vision for Leadership in Business



Gabriel Flynn

Abstract This article seeks to contribute to a vision for leadership in business based on a recovery of virtue. The vision for leadership articulated here draws principally on the writings of the classical philosopher Aristotle and of the contemporary philosopher Josef Pieper. Without discounting the ever-increasing complexity of modern business, this essay will attempt to reconstruct Aristotle's emphasis on virtue and moral character, and argues for the philosopher's relevance to modern management and corporate leadership. The paper concludes that the message of virtue is a message of hope and attempts to find plain language to articulate its value to those engaged in business or concerned with the formulation of government policy.

Keywords Aristotle · Ethics · Ireland · Leadership · Leisure · Manager · Responsibility · Virtues · Thomistic ethics

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Introduction¹

The purpose of this chapter is to contribute to a vision for leadership in business based on a recovery of virtue. While others also have undertaken to furnish such a vision,² my aim here is, first, to enter in depth into Aristotle's thought, keeping in mind the managerial work, and, second, to present and to discuss some ideas of the brilliant German philosopher Josef Pieper (1904–97), whose lucidity earned the praise of T. S. Eliot: "Pieper's sentences" – he said – "are admirably constructed and

¹I thank Patricia H. Werhane and Edwin M. Hartman for useful suggestions on an earlier draft of this paper. Anonymous referees also offered good advice. A previous version of this paper was originally presented at the IESE Business School, University of Navarra, for the 14th International Symposium on Ethics, Business and Society: "Towards a Comprehensive Integration of Ethics Into Management: Problems and Prospects". May 18–19, 2006.

²In the past two decades, many hundreds of books and innumerable articles have been written on the theme of leadership, and many of these have expatiated on the role of virtue in management. Among the scholarly research studies, see, for example: Ciulla, J. B. (ed.): 2004, *Ethics, the Heart of Leadership*, 2nd ed. (Praeger, Westport, Connecticut); Sison, A. J. G.: 2003, *The Moral Capital of Leaders: Why Virtue Matters* (Edward Elgar, Cheltenham, UK); Goleman, D., R. Boyatzis and A. McKee: 2002, *The New Leaders: Transforming the Art of Leadership into the Science of Results* (Little Brown, London); Kouzes, J. M. and B. Z. Posner: 2002, *The Leadership Challenge*, 3rd ed. Jossey Bass, San Francisco); Bianco-Mathis, V. E., L. K. Nobors, and C. H. Roman: 2002, *Leading from the Inside Out: A Coaching Model* (Sage Publications, Thousand Oaks, California); Kakabadse, A. and N. Kakabadse: 1999, *Essence of Leadership* (International Thomson Business Press, London); Greenleaf, R. K. and Larry C. Spears (ed.): 1998, *The Power of Servant-Leadership*, (Berrett-Koehler Publishers, San Francisco); Mintzberg, H.: 1998, *Harvard Business Review on Leadership*, 5th ed. (Harvard Business School Publishing, Boston, Massachusetts); Grint, K. (ed.): 1997, *Leadership: Classical, Contemporary, and Critical Approaches* (Oxford University Press, Oxford); Kanungo, R. N. and M. Mendonca: 1996, *Ethical Dimensions of Leadership* (Sage Publications, Thousand Oaks, California); Connock, S. and T. Johns: 1995, *Ethical Leadership* (IPD, London); Bennis, W.: 1992, *Leaders on Leadership: Interviews with Top Executives*, 6th ed. (Harvard Business School Publishing, Boston, Massachusetts); Solomon, R. C.: 1992, 'Corporate Roles, Personal Virtues: An Aristotelian Approach to Business Ethics,' *Business Ethics Quarterly* 2, pp. 317–339; Smith, David C.: 1995, 'Ethics and Leadership: The 1990's Introduction to the Special Issue of the Business Ethics Quarterly,' *Business Ethics Quarterly* 5, pp. 1–3; Ciulla, J. B.: 1995, 'Leadership Ethics: Mapping the Territory,' *Business Ethics Quarterly* 5, pp. 5–28; Fisher, D. H. and Fowler, S. B.: 1995, 'Re imagining Moral Leadership in Business: Image, Identity and Difference,' *Business Ethics Quarterly* 5, pp. 29–42; Lichtenstein, B. M., B. A. Smith and W. R. Torbert: 1995, 'Leadership and Ethical Development: Balancing Light and Shadow,' *Business Ethics Quarterly* 5, pp. 97–116; Murphy, P. E. and G. Enderle: 1995, 'Managerial Ethical Leadership: Examples Do Matter,' *Business Ethics Quarterly* 5, pp. 117–128; Collins, J.: 2001, 'Level 5 Leadership: The Triumph of Humility and Fierce Resolve,' *Harvard Business Review* 79, pp. 66–76; Hartman, E. M.: 1998, 'The Role of Character in Business Ethics,' *Business Ethics Quarterly* 8, pp. 547–559; Hartman, E. M.: 2001, 'Character and Leadership,' *Business and Professional Ethics Journal* 20, pp. 3–21; Whetstone, J. T.: 2003, 'The Language of Managerial Excellence: Virtues as Understood and Applied,' *Journal of Business Ethics* 44, 343–357; Melé, D.: 2005, 'Ethical Education in Accounting: Integrating Rules, Values and Virtues,' *Journal of Business Ethics* 57, pp. 97–109; Galie, P.J. and Bopst, C.: 2006, 'Machiavelli and Modern Business: Realist Thought in Contemporary Corporate Leadership Manuals,' *Journal of Business Ethics* 65, pp. 235–250.

his ideas are expressed with maximum clarity. He restores to philosophy what common sense obstinately tells us ought to be found there: *wisdom and insight*".³

I shall argue that an ethics of virtue provides important elements of a possible riposte to the serious financial scandals currently affecting business globally. I want to demonstrate that virtue ethics contributes to an environment for business that fosters best practice. The formulation and successful enactment of such a vision for leadership requires a complex and normally difficult series of interactions between relevant parties, including, among others, ethicists, financiers, bankers, business entrepreneurs and executives, representatives of the business schools and public representatives, parliamentarians and members of the trade union movement. The objective is not to create another 'Utopia', to illustrate a new theory of perfection. The unfortunately all too common phenomenon of financial and political scandals has effectively obliterated the notion of a perfect society in the minds of the present and future generations. Informed rather by the highly competitive environment of business and enterprise, where success is normally determined by margins of profit and where ethics is largely confined to the periphery or beyond, an appropriate application of virtue in the domain of business would contribute concomitantly to enhanced company profits and to the well-being of employees. My point is that the coalescence of virtue and profit is possible only when daring, creative and insightful business leadership is practiced in society. Such leadership should take cognisance of the psychological, social and spiritual values, and associated needs, of individual workers and their families, thereby placing business at the service of society as a whole. It is incontrovertible that ethics plays an important role in the creation of a business environment in which virtues and values are brought into relationship for the good of all. In this regard, character and, in particular, the character of leaders is paramount. As one commentator, in a discussion of the intersection of business ethics and leadership, comments:

Ethics is about the assessment and evaluation of values, because all of life is value-laden. [...] In regard to leadership, says [Gail] Sheehy, character is fundamental and prophetic. [...] What society is now demanding, and what business ethics is advocating, is that our business leaders and public servants should be held accountable to an even higher standard of behaviour than we might demand and expect of ourselves.⁴

Ireland's 'Celtic Tiger' Economy: An Introductory Case

The experience of a shared loss in Ireland where recent economic and political history provides clear testimony to a widespread erosion of trust in some of the key institutions of society, principally politics and banking, has given rise to an

³Pieper, J.: 1991, *A Brief Reader on the Virtues of the Human Heart*, trans. Paul C. Duggan (Ignatius, San Francisco).

⁴Gini, A., 'Moral Leadership and Business Ethics,' in J. B. Ciulla (ed.): 2004, *Ethics, the Heart of Leadership*, 2nd ed. (Praeger, Westport, Connecticut), pp. 25–43 at 34, 36.

increased interest in business ethics.⁵ This loss of confidence has also adversely affected business and finance. The phenomenon of costly state tribunals of enquiry,⁶ established to investigate and eradicate unethical practices in business and politics, has had only limited success, while the notion of corporate social responsibility is commonly perceived as cosmetic, a precise oxymoron. Such perceptions, perhaps unfair or inaccurate, are nonetheless a stark reminder that the concept of “business ethics” appears to many as contradictory and in urgent need of rehabilitation. This infelicitous situation in turn begs the question: Is it possible to effect a restoration of confidence in business and its related institutions in Ireland and elsewhere in the developed world? As part of a positive response, I suggest that the restoration of confidence in a society’s institutions requires a dual strategy that operates concomitantly at the level of personal morality and private ethics, as well as on the plane of corporate ethics and public policy. In such a process of restoration, virtue can play an important role. Direct action by the Irish government since the 1990s to investigate large-scale financial scandals through state tribunals of enquiry, difficulties of cost, duration and procedure notwithstanding, has played an important psychological role in the creation of a good environment for business. The latter is of utmost importance for ongoing inward investment and future prosperity.⁷ The tribunals constitute an essential ethical initiative that distinguishes Ireland from various southern European countries, including Greece and Spain, which also received significant EU structural funding but whose economies still lag behind Ireland.⁸ I now wish to draw attention to the early history of the modern Irish state because it shows

⁵ See Spollen, A. L.: 1997, *Corporate Fraud: The Danger from Within*, (Oak Tree Press, Dublin). See, further, Solomon, R. C. and F. Flores: 2001, *Building Trust in Business, Politics, Relationships, and Life* (Oxford University Press, Oxford), p. 3.

⁶ Transparency International, Global corruption report shines light on Ireland: “The light shed on corruption through tribunals may have affected Ireland’s position on a list of the world’s least corrupt countries. Ireland lay in 12th position on TI’s Corruption Perception Index in 1997. Ireland now stands in 17th place out of 146 countries. The index measures attitudes to corruption as captured in various domestic and international business surveys. Tribunals of Inquiry are estimated to have cost the Irish taxpayer €200 million to date. An additional €1.6 billion in unexpected funds has been collected by the Revenue Commissioners since the tribunals started their work.” Available at: http://www.transparency.ie/news_events/global_corruption.htm (accessed: 28 April 2006).

⁷ Collins, N. and A. Quinlivan: 2005, ‘Multi-level governance’, in J. Coakley and M. Gallagher (eds.), *Politics in the Republic of Ireland*, 4th ed. (Routledge, London), pp. 384–403 at 395–401. The Irish response to recent financial and political scandals has resulted in “more laws and codes, harsher penalties, and new forms of checks and investigations.”

⁸ See *IMD World Competitiveness Yearbook* (2006). In the IMD World Competitiveness Rankings 2006, Ireland ranks 11th in the world, while Spain and Greece are ranked 36th and 42nd respectively. The *IMD World Competitiveness Yearbook* features 61 national and regional economies and includes 312 different criteria, grouped into four competitiveness factors. Available at: <http://www02.imd.ch/documents/wee/content/ovrealgraph/pdf> (accessed 2 June 2006). See, further, ‘Activities of the European Union: Summaries of Legislation.’ Regarding Structural Funds: “The Community’s contribution rate can be increased to 80% for the regions located in one of the Member States eligible for assistance from the Cohesion Fund (Greece, Spain, Ireland and Portugal), and to 85% for all the most remote regions as well as the smaller islands in the Aegean

how effective political leadership, combined with the right ethical environment for business, constitutes indispensable foundational elements for the creation of a world-class economy.

It is often pointed out that the dreams and ideals of youth inspire confidence, courage and vision for great deeds. It is worth noting at this point that the vision and leadership of the early generations of Irish political leaders, in the decades following independence in 1922, combined education and a policy of strategic alignment both within Europe and with the USA as a foundation for the eventual reversal of the legacy of colonial impoverishment, both cultural and economic, as well as chronic unemployment, and long-term, large-scale emigration.⁹ As a young nation possessed of an irresistible democratic impulse and remarkable political stability since the foundation of the modern state in 1922,¹⁰ the country is currently enjoying unprecedented economic prosperity.¹¹ Thus, Ireland is in a privileged position to effect changes at home and to exert influence abroad for the mutual enrichment of her own economy, as well as of the economies of other nations. The highly successful model of social partnership involving all the major participants in the Irish economy, based on equality, trust and mutual well-being, has contributed to industrial peace, sustained high level economic growth and

Sea in Greece" (emphasis original). Available at: <http://europa.eu.int/scadplus/leg/en/lvb/160014.htm> (accessed 12 June 2006).

⁹ FitzGerald, G.: 2003, *Reflections on the Irish State* (Irish Academic Press, Dublin), pp. 16–24. See, further, Walsh, J.: 2005, 'The Politics of Educational Expansion', in Brian Girvin and Gary Murphy (eds), *The Lemass Era: Politics and Society in the Ireland of Seán Lemass* (University College Dublin Press, Dublin), pp. 146–165 at 156, 165. The period 1945–1973, appropriately described by the appellation 'the Lemass era', witnessed the transformation of Ireland into a modern state, a process in which education was pivotal. Seán Lemass, Taoiseach (Prime minister) from 1959–1966, commented that education was "both a cause of economic growth and a product of such growth." By making education "a key national priority" in the allocation of national resources, Lemass ensured the success of the state's policy of providing free post-primary education.

¹⁰ Garvin, T.: 2005, *1922: The Birth of Irish Democracy*, 2nd ed. (Gill and Macmillan, Dublin), p. 30.

¹¹ See 'The World in 2005', *The Economist* Intelligence Unit's 'Quality of Life Index': "When one understands the interplay of modernity and tradition in determining life satisfaction, it is then easy to see why Ireland ranks a convincing first in the international quality-of-life league table. It successfully combines the most desirable elements of the new-material wellbeing, low unemployment rates, political liberties-with the preservation of certain life satisfaction-enhancing, or modernity-cushioning, elements of the old, such as stable family life and the avoidance of the breakdown of community. Its score on all of these factors are above the eu-15 average, easily offsetting its slightly lower scores on health, climate and gender equality." Available at: http://www.economist.com/media/pdf/QUALITY_OF_LIFE.pdf (accessed: 30 April 2006). See, further, the Human Development Index (HDI), published annually by the UN. This ranks nations according to their citizens' quality of life rather than strictly by a nation's traditional economic figures. The criteria for calculating rankings include life expectancy, educational attainment, and adjusted real income. The 2005 index, based on 2003 figures, ranks Ireland 8th in the world. Available at: <http://www.infoplease.com/ipa/A0778562.html> (accessed: 26 September 2006). See, further, McWilliams D.: 2005, *The Pope's Children: Ireland's New Elite* (Gill and Macmillan, Dublin), 3.

social harmony.¹² Regarded as a model within the euro zone,¹³ Ireland's greatest asset remains her people. She boasts the youngest population in Europe, and one of the best educated, mobile and highly skilled workforces in the world.¹⁴ Ireland's

¹²See ESRI (Economic and Social Research Institute), 'Irish Economy Overview': "Ireland is a small, open, trade-dependent economy and is one of the fastest growing economies in the developed world. [...] Over the last decade, unprecedented economic growth has seen the level of Irish real GDP almost double in size. There have been many reasons advanced for Ireland's success, which in combination can help explain the exceptionally strong growth rates experienced. They include EU membership and access to the Single Market; Ireland's low corporation tax rate and a large multinational presence; a high proportion of the population of working age; increased participation in the labour market especially by females; a reversal of the trend of emigration toward immigration; sustained investment in education and training; coordinated social partnership agreements and a more stable public finance position. [...] Irish living standards have increased significantly over the last decade. The OECD estimates that in terms of GDP per capita, based on current Purchasing Power Parities, Ireland is ranked 4th in the world. Ireland's GDP per capita in 2003 is estimated at US\$ 33,200, with only the US, Norway and Luxembourg ranking higher." Available at: <http://www.esri.ie/content.cfm?t=Irish%20Economy&mid=4> (accessed 28 April 2006). See, further, FitzGerald, G.: 2003, *Reflections on the Irish State* (Irish Academic Press, Dublin), pp. 161–162. "As the Irish economy expanded rapidly during the 1990s, resentment against Ireland grew in countries like Germany, France and the Netherlands, where it was simplistically – and erroneously – assumed that the prime factor in this exceptional growth was the resources being transferred to Ireland from these countries through the Community budget. In fact, whilst the Structural Funds did help Ireland to catch up on its infrastructural deficit, and thus to reduce some capacity limitations on growth, their actual direct contribution to growth was quite small. Much more important to the achievement of rapid economic growth have been domestic policies such as the rapid expansion of education, and the low rate of corporate taxation." On 2 May 2006, Philippe Leger, the advocate general at the European Court of Justice, Europe's highest court, said that Ireland's strategy of attracting foreign investment by offering one of Europe's lowest corporate tax rates – 12.5% is "not abusing" EU law. The opinion of the advocate general which has yet to be confirmed by the full court is good news for Ireland and vindicates the right of companies to locate in the jurisdiction. See Jamie Smyth, 'Key Opinion boosts Irish Foreign Investment Strategy', *The Irish Times*, 3 May 2006, p. 1.

¹³*The Irish Times*, 27 May 2006, p. 14. A full-page article by a special correspondent in *Le Figaro* on 17 April 2006 lauded Ireland for the flexibility of employment and as a prime location for business: "In Ireland, they have grasped that everything is provisional. Ephemeral. Like life itself But they are no longer prurient about it. Because they have discovered that the flexibility of the labour market is the sole protection of jobs. Firms disappear? Others are created. Basic jobs are out-sourced? More modern and better-paid sectors take their place." See Mansergh, M., "Our neighbours discover a fair land of opportunity".

¹⁴"While Ireland has about 1% of the European Union's population, it receives 25% of US investment in manufacturing industry in Europe. Since 1980, 40% of all inward investment in the European electronics sector has been based in Ireland. Five of the world's ten largest software companies have development or production facilities in Ireland and 60% of all software packages sold in Europe are produced in the country. Ireland is now the largest exporter of computer software on the planet. Thirteen of the world's top fifteen pharmaceutical companies have R and D and/or manufacturing operations in Ireland. The Dublin International Financial Services Centre is the prime return on investment location within the EU for the financial services industry." See: Ireland Business Directory, available at: <http://www.iol.ie/rvdiscover/busl.htm> (accessed: 29 April 2006). See, further, McWilliams, D., *The Pope's Children: Ireland's New Elite*, p. 222. See, further, Brown, T.: 2004, *Ireland: A Social and Cultural History 1922–2002*, 3rd ed. (HarperCollins Publishers, London), p. 241. "From the early 1960s, therefore, Irish secondary education became

knowledge economy is, however, constrained by the problems of global outsourcing and competitiveness.¹⁵ In order to improve competitiveness in the business and trading sectors, what is called for is higher investment in education and in research and development, as well as adaptation to the global market, and increased entrepreneurial creativity and innovation. From all this it is clear that the greatest challenge facing Ireland's business and political leaders, as well as those of her neighbours and friends, is to enrich and develop to their full potential the most precious resource of any nation or union of nations, namely, the people. Any strategic economic plan that is not people-centred is ultimately destined to fail.

In the process of restoration of confidence in the institutions of business, conscience can also play an important role. To understand the place of conscience on the executive's compass, we are helped by the work of the American ethicist Reinhold Niebuhr (1892–1971). He argues that the 'imperatives' of personal conscience should not be sacrificed to the needs of society. *Moral Man and Immoral Society* (1932) is Niebuhr's important study in ethics and politics. He asserted that individual morality could overcome social immorality:

The needs of an adequate political strategy do not obviate the necessity of cultivating the strictest individual moral discipline and the most uncompromising idealism. Individuals, even when involved in their communities, will always have the opportunity of loyalty to the highest canons of personal morality. Sometimes, when their group is obviously bent upon evil, they may have to express their individual ideals by dissociating themselves from their group.¹⁶

Niebuhr's claim that the triumph of individual conscience is 'a necessity of the soul' rather than a 'luxury'¹⁷ in modern technological civilisation is still relevant today. The problem with this view of personal and social morality, however, is that it places an inequitable burden of responsibility on the individual. Niebuhr's contribution is nonetheless important and any attendant difficulties can be surmounted through

an integral part of a system of mass education. A writer in 1970, reflecting on Ireland's position in a world educational crisis, remarked, 'Education is the most rapidly and inexorably expanding business in the country.'" For an historical account of the capital investment of the fledgling state in education, see Garvin, T.: 2005, *Preventing the Future: Why was Ireland so Poor for so Long?* 2nd ed. (Gill and Macmillan, Dublin), pp. 158–214.

¹⁵ See *IMD World Competitiveness Yearbook* (2006), available at: <http://www02.imd.ch/documents/wcc/content/ovreallgraph/pdf> (accessed 2 June 2006). See, further, the Irish government's National Competitiveness Council's, eighth *Annual Competitiveness Report* (2005). This report analyses Ireland's competitiveness using 171 indicators. Although ranked 2nd in the EU and 7th among the OECD countries for entrepreneurial activity, Ireland's performance is relatively weak in some sectors required to drive the knowledge economy. In education, Ireland continues to enjoy relatively strong attainment levels despite lower levels of investment at both primary and secondary levels. Likewise, levels of investment in R&D, as well as development of patents and the use of modern technologies are below those of other advanced economies. See McDowell, A. *et al.*, *Annual Competitiveness Report 2005* (Forfás-National Competitiveness Council, Dublin).

¹⁶ Niebuhr, R.: 1960, *Moral Man and Immoral Society: A Study in Ethics and Politics*, 2nd ed. (Charles Scribner's Sons, New York), p. 273.

¹⁷ Niebuhr, R., *Moral Man and Immoral Society*, p. 277.

education. I shall consider below how education in virtue, combined with personal conscience, contributes to business, and assists its leaders and schools in the important work of the formation of future generations of businessmen and women.

Virtue Ethics

In common parlance, a virtue is a trait of character or intellect, which is morally laudable. Virtue ethics is an ethics of character, concerned to promote 'integrity' and 'excellence.' It is the approach of the ancients, including Plato, Aristotle, neo-Platonists, Stoics, and Epicureans.¹⁸ With the addition of the ideals of virtue derived from Scripture, virtue ethics became a distinctive normative system in Christian moral thought. Its main modern competitors are Utilitarianism and Kantianism. In recent years, the virtues and the ethics of virtue have enjoyed a revival of interest. This began with G. E. M. Anscombe's ground-breaking essay 'Modern Moral Philosophy' (1958), but is perhaps best known through Alasdair MacIntyre's acclaimed work *After Virtue* (1981). My present concern is to indicate that virtue ethics provides an appropriate ethical framework for managers at a time of profound social change and political crisis in the world. As Jean Porter of Notre Dame University comments: "Virtue ethics, understood as a process of systematic, critical reflection on the virtues and related topics, is particularly likely to emerge in conditions of social change, when received traditions of the virtues undergo development and criticism."¹⁹ Since business ethics is concerned with the grey areas between good and bad behaviour in the conduct of business, areas not covered by law or easily subject to regulation, it will be helped by the pluralist, flexible approach offered by a renewed engagement with virtue ethics.

¹⁸For an introduction to virtue ethics, see Devettere, R. J.: 2002, *Introduction to Virtue Ethics: Insights of the Ancient Greeks* (Georgetown University Press, Washington, DC). See, further, Murphy, J. G.: 2005, "Virtue Ethics and Christian Moral Reflection", *Milltown Studies* 55, pp. 82–112; Birsch, D.: 2002, *Ethical Insights: A Brief Introduction*, 2nd ed. (McGraw-Hill, Boston), pp. 135–153; Koehn, D.: 1995, 'A Role for Virtue Ethics in the Analysis of Business Practice', *Business Ethics Quarterly* 5, pp. 533–539; Solomon, R. C.: 2000, 'Business With Virtue: Maybe Next Year', *Business Ethics Quarterly* 10, pp. 339–341; Libby, T. and L. Thome: 2004, 'The Identification and Categorization of Auditors' Virtues', *Business Ethics Quarterly* 14, pp. 479–498; Moore, G.: 2005, 'Corporate Character: Modern Virtue Ethics and the Virtuous Corporation', *Business Ethics Quarterly* 15, pp. 659–685; Naughton, M. J. and J. R. Cornwall: 2006, 'The Virtue of Courage in Entrepreneurship: Engaging the Catholic Social Tradition and the Life-Cycle of the Business', *Business Ethics Quarterly* 16, pp. 69–93; Moberg, D. J.: 2000, 'Role Models and Moral Exemplars: How do Employees Acquire Virtues by Observing Others?', *Business Ethics Quarterly* 10, pp. 675–696; Mintz, S. M.: 1996, 'Aristotelian Virtue and Business Ethics Education', *Journal of Business Ethics* 15, pp. 827–838. See, further, McCloskey, D. N.: 2006, *The Bourgeois Virtues: Ethics for an Age of Commerce* (The University of Chicago Press, Chicago). McCloskey presents a new interpretation of 'virtue ethics' as 'better than Kantianism.'

¹⁹Porter, J.: 2001, 'Virtue Ethics', in Robin Gill, (ed.), *The Cambridge Companion to Christian Ethics*, (Cambridge University Press, Cambridge) pp. 96–111 at 96.

For the proposed vision of the virtuous executive, I shall draw principally on the writings of the classical philosopher Aristotle (384–322 BC), and the contemporary Catholic philosopher Josef Pieper (1904–97).²⁰ Pieper was a philosopher in the classical tradition, a catalyst between the Greek philosophical tradition and the Christian theological tradition, whose chief concern was with the real and then with rendering the truth of reality transparent through language. In search of wisdom and happiness, Pieper drew on ‘the perennial philosophy’ of the West rooted in Plato and Aristotle. Aristotle’s *Ethics* is one of the most important and central texts in the history of Western philosophy.²¹ It lies at the heart of contemporary moral theory and is essential to an understanding of the history of ethics. Pieper’s famous book *Leisure: the Basis of Culture*, first published in German in 1948, is considered by many to be his greatest work. Its timeless reflections on silence, insight and inactivity offer a new vision of reality that challenges the profit and productivity driven environment of the contemporary world. The contribution of Aristotle and Pieper to ethics and society is of permanent value; my *modus operandi* in this paper is based on a consideration of their respective ethical systems and their application to business.

Reflection on the sources and history of ethics in general and of Christian ethics in particular leads inevitably to Aristotle. In fact, Christian reflection on the virtues draws on two sources: the ideals and theories articulated in Greek antiquity and further elaborated in the Hellenistic Roman Empire, and the ideals of virtue set forth in Scripture. The claims to rational superiority of Aristotle’s *Ethics* against its rivals, whether ancient, medieval or modern are a matter of debate.²² Alasdair MacIntyre, a leading contemporary philosopher, argues that there are sufficient grounds for reasserting central Aristotelian positions. He makes the further claim that Aristotelianism is worthy of consideration because it possesses the capacity of revival in new forms in different cultures.

Aristotle’s ethics, in its central account of the virtues [...] and of the rules of justice required for a community of ordered practices, captures essential features not only of human practice within Greek city-states but of human practice as such. And because this is so, whenever such practices as those of the arts and sciences, of such productive and practical activities as those of farming, fishing, and architecture, of physics laboratories and string quartets and chess clubs, types of activity whose practitioners cannot but recognize the goods internal to them and the virtues and rules necessary to achieve those goods, are in a flourishing state, then Aristotelian conceptions of goods, virtues, and rules are regenerated and reembody in practice. This is not to say that those who practice them are aware that they have become to some significant degree, in their practice, although commonly not in their theory,

²⁰ Hoye, W. J.: 2004, ‘A Transparent Philosopher’, *America: The National Catholic Weekly* **191**, pp. 16–19, 22.

²¹ Kenny, A. (ed.): 2001, *The Oxford Illustrated History of Western Philosophy*, 3rd ed. (Oxford University Press, Oxford). See, further, Rowe, C.: 2003, ‘Ethics in Ancient Greece’, in Singer, P. (ed.), *Blackwell Companions to Philosophy: A Companion to Ethics*, 18th ed. (Blackwell, Oxford), pp. 121–132.

²² Copleston, F. C., SJ: 1966, *A History of Philosophy*, vol. I Greece and Rome, The Bellarmine Series IX, Series ed. Sutcliffe, E. F., SJ (Bums and Oates: London), pp. 500–502.

Aristotelians. It is to say that Aristotelianism always has possibilities of revival in new forms in different cultures.²³

If MacIntyre's assessment is correct, notwithstanding his admission that the large majority of contemporary moral philosophers disagree, then Aristotle's *Ethics* may still be relevant to those engaged in business today. This claim may be made clearer by considering his outstanding contribution to the practical science of human happiness, the subject of both the *Ethics* and the *Politics*, considered its sequel. As regards the contribution of the *Ethics* to business, I shall discuss it briefly in the next section.

Doing Business with Aristotle: Dialogue on Virtue

Introductions to Aristotle's life and commentaries on his thought abound.²⁴ Some brief introductory remarks may, however, be apposite in order to understand how Aristotle is of use in responding to the moral and ethical dilemmas at the beginning of the twenty-first century. Aristotle was born in Stagira, a small town in northern Greece, in 384 BC. His father, Nicomachus, was a doctor, friend and physician to King Amyntas of Macedon, and this may partly explain the preponderance of medical analogies in Aristotle's ethical writings. In 367 BC, Aristotle arrived in Athens, the leading cultural centre of the region, to begin his 'university' studies. 'University' in this case meant the Academy, the philosophical school founded by Plato who himself had been a disciple of Socrates. The two great influences on Aristotle's philosophy were Plato and his own research into biology, especially animal biology.²⁵ Aristotle retained Plato's interest in ethics and politics. Like Plato, he is concerned with how people ought to live, with the nature of moral virtues, justice, personal responsibility and moral weakness. Unlike Socrates and Plato, however, he emphasized virtuous activity, considered to be *the* source of happiness, as opposed to merely possessing a virtue. As Roger Crisp remarks: "For Aristotle, happiness consists in, and only in, virtuous activity."²⁶

Among Aristotle's outstanding works of moral philosophy are the *Nicomachean Ethics* and the *Eudemian Ethics*. A third work on ethics traditionally ascribed to

²³ MacIntyre, A.: 1998, *A Short History of Ethics: A history of moral philosophy from the Homeric Age to the twentieth century*, 2nd ed. (Routledge and Kegan Paul, London), pp. xvii–xviii.

²⁴ Crisp, R.: 2002, 'Introduction' in Aristotle, *Nicomachean Ethics*, trans. and ed. Roger Crisp, 3rd ed. (Cambridge University Press, Cambridge), vii–xxxv; Copleston, F. C., SJ, *A History of Philosophy*, vol. I Greece and Rome, pp. 266–378; Hughes, G. J.: 2001, *Routledge Philosophy Guidebook to Aristotle on Ethics* (Routledge, London); Barnes, J. (ed.): 1999, *The Cambridge Companion to Aristotle*, 6th ed. (Cambridge University Press: Cambridge); Nussbaum, M. C.: 2001, *The Fragility of Goodness: Luck and Ethics in Greek Tragedy and Philosophy*, revised ed. (Cambridge University Press, Cambridge), pp. 235–394.

²⁵ Hughes, G. J., *Routledge Philosophy Guidebook to Aristotle on Ethics*, loc. cit., p. 4.

²⁶ Crisp, R., 'Introduction' in Aristotle, *Nicomachean Ethics*, loc. cit., p. ix.

Aristotle – the *Magna Moralia* – is now generally considered not to have been written by him, but perhaps by a student. The *Nicomachean Ethics* (referred to as the *Ethics* or *NE*), viewed by scholars as almost certainly the product of Aristotle's developed intellect, is a revision of his earlier *Eudemian Ethics*. Some argue, however, that the *Eudemian Ethics* is later and contains Aristotle's mature positions.²⁷ Like most of his works, the *Nicomachean Ethics* was not written for publication. It consists of a full set of lecture notes, the audience consisting primarily of privileged young men, most of whom would have been seeking a career in public life. Some of Aristotle's views, notably those on the role of women in society, moral weakness, and foreigners, unreflectively adopted from Greek culture, are clearly unacceptable today.²⁸ It is, nonetheless, possible to identify a clear current of thought among scholars concerning the enduring relevance of the *Nicomachean Ethics*, a work dominated entirely by the primacy of praxis in the moral life.²⁹

The difficulties of reclaiming Aristotle in the context of modernity notwithstanding,³⁰ the task of reconstructing his emphasis on moral character and wedding his views with an essentially Christian vision of virtue, a central concern of this paper, is both useful and legitimate and will be discussed below. First, I shall comment briefly on Aristotle's view of virtue.

Aristotle's aim in writing the *Ethics* and the *Politics* was to provide an account of how the good person should live, and how society should be organized in order to realize that goal. Virtue is perceived as the ideal to which all good living aspires, the zenith of human activity. The most important question a young person has to face may be variously formulated as follows: "How can I make my life a success?" or "What makes life worth living?" These are the questions with which Aristotle starts his *Ethics*. His answer is disconcertingly brief: what makes a life worth living is *eudaimonia*; and to live a life which can be characterized by *eudaimonia* is precisely the aim of morality. However, it is not at all obvious what Aristotle means by *eudaimonia*. A correct understanding of his technical terms *eudaimonia* (happiness) and *aretē* (virtue) is then important. Hughes points out that *eudaimonia* is almost always translated as 'happiness.' This translation is apt to cause misunderstanding since in English 'happiness' suggests contentment or pleasure. Aristotle, how ever,

²⁷ Kenny, A.: 1978, *The Aristotelian Ethics: A Study of the Relationship between the Eudemian and Nicomachean Ethics of Aristotle* (Clarendon Press, Oxford). See, further, MacIntyre, A.: 1985, *After Virtue: A Study in Moral Theory*, 2nd ed. (Duckworth, London), p. 147; Hutchinson, D. S., "Ethics" in Barnes, J. (ed.), *The Cambridge Companion to Aristotle*, pp. 195–232 at 198.

²⁸ Hughes, J. G., *Routledge Philosophy Guidebook to Aristotle on Ethics*, loc. cit., p. 211. See, further, Hutchinson, D. S., 'Ethics', in Jonathan Barnes, (ed.), *The Cambridge Companion to Aristotle*, loc. cit., pp. 214–215.

²⁹ Kosman, L. A.: 1980, 'Being Properly Affected: Virtues and Feelings in Aristotle's Ethics', in Amélie Oksenberg Rorty, (ed.), *Essays on Aristotle's Ethics* (University of California Press, Berkeley), pp. 103–116 at 115.

³⁰ Johnson, P.: 1996, 'Reclaiming the Aristotelian Ruler', in Horton, J. and Mendus, S. (eds), *After MacIntyre: Critical Perspectives on the Work of Alasdair MacIntyre*, 2nd ed. (Polity Press, Cambridge), pp. 44–64 at 45. See, further, Birsch, D., *Ethical Insights: A Brief Introduction*, loc. cit., pp. 148–152.

makes it quite clear in Book X, 7, 1177a that *eudaimonia* is achieving one's full potential which in turn is possible only by being ethical. In Book I, 4, 1095a *eudaimonia* is 'living well' or 'doing well'. In summary, we may say that, for Aristotle, a fulfilled, happy or successful life consists finally in living entirely virtuously, together with moderate good fortune, throughout an entire lifetime.³¹ The second term we need to look at briefly is *aretē*. For someone to possess an *aretē* is for that person to be good at something, so that the word is often translated as 'virtue', though not always in a moral sense. In the *Ethics*, Aristotle speaks in particular of two kinds of *aretē*, distinguished by the fact that some virtues belong to one's moral character (for example, courage or generosity), and others to one's skill at thinking (such as being good at planning). To conclude on the question of terminology, it is clear that the terms referred to here have different meanings depending on the context: 'happiness', 'fulfilment', 'human flourishing' or 'success' for *eudaimonia*; and 'virtue', 'excellence' or 'skill' for *aretē*.

According to Alasdair MacIntyre, Aristotle's account of the virtues "decisively constitutes the classical tradition as a tradition of moral thought. [...] The *Nicomachean Ethics* ...is magisterial and it is unique."³² In Aristotle's view, a fulfilled life is a life lived *kat' aretēn* – in accordance with virtue. It is a life in which our human capabilities are put to their best use. From the end of Book III, Chapter 6 to the end of Book IV of the *Ethics*, Aristotle discusses several virtues, including courage, temperance, generosity, magnificence, wittiness, mildness, and friendliness. He distinguishes between virtues of character (moral virtues) and virtues of mind (intellectual virtues). The five virtues by which a person may achieve excellence in reasoning and truth (the most important of which in connection with ethics is practical wisdom) may be called the intellectual virtues; these are acquired primarily through teaching. The intellectual virtues are enumerated in Book VI, Chapter 3, 1139b: "Let us assume that there are five ways in which the soul arrives at truth by affirmation or denial, namely, skill, scientific knowledge, practical wisdom, wisdom, and intellect; for supposition and belief can be mistaken."³³ The moral virtues (virtues of character), such as courage, generosity, arise through habit. Developing virtues of character is like learning a skill. Virtues, then, are dispositions engendered in us through practice or habituation.³⁴ Aristotle defines moral virtue in Book II, Chapter 6, 1106b–1107a: "[Moral] virtue, then, is a state involving rational choice, consisting in a mean relative to us and determined by reason – the reason, that is, by reference to which the practically wise person would determine it." To say that virtues lie in the 'mean' says no more than that appropriate patterns of response will come somewhere between over-and under-reacting. Practical wisdom, a not

³¹ Hutchinson, D. S., 'Ethics' in Jonathan Barnes, (ed.), *The Cambridge Companion to Aristotle*, loc. cit., 203.

³² MacIntyre A., *After Virtue: A Study in Moral Theory*, loc. cit., p. 147.

³³ Aristotle, *Nicomachean Ethics*, Crisp, R., (ed.), 105. See, further, Birsch, D., *Ethical Insights: A Brief Introduction*, loc. cit., p. 138.

³⁴ Crisp, R., 'Introduction' in Aristotle, *Nicomachean Ethics*, loc. cit., p. xv.

uncontroversial element in Aristotle's thought,³⁵ is as a bridge between the intellectual and moral virtues. It entails an appreciation of the difference between what is good and bad in order to live a worthwhile life, and necessitates virtue of character in the sense that it cannot function properly without correct habits. Business people should foster practical wisdom; a vital element in Aristotle's thought and critical in the decision-making process.

I conclude the penultimate section of the present paper by appealing again to the *Politics* and the *Ethics* because the questions considered in these ancient books are perennial.³⁶ Though the problems of the business community may be greater and more complex than ever, Aristotle's presentation of the virtues as dispositions engendered through practice or habituation is still relevant and should be repeated again and again in the lecture halls of business schools and in the boardrooms of multinational corporations.³⁷ The message of virtue is a message of hope; it strikes against all injustice. In both religious and nonreligious ethics, virtue forms an important part of the struggle for a wholly just worldwide community. The vision for a new world order based on justice and virtue must become a practical imperative for the leaders of business. Without underestimating the difficulties concerning the use of virtue ethics in business ethics,³⁸ it is clear that the realization of such a vision is the greatest challenge facing the business community and professional ethicists.³⁹

In the remaining sections, I shall endeavour to advance the vision for the virtuous executive by considering the contribution of Josef Pieper.

³⁵ Hughes, G. J., *Routledge Philosophy Guidebook to Aristotle on Ethics*, loc. cit., p. 84.

³⁶ Sinclair, T. A.: 1992, 'Translator's Introduction', Aristotle, *The Politics*, trans. T. A. Sinclair, Revised and Re-presented by T. J. Saunders, 3rd ed. (Penguin Books, London), pp. 13–28 at 18.

³⁷ Solomon, R. C.: 2002, 'Historicism, Communitarianism, and Commerce: An Aristotelian Approach to Business Ethics', in P. Koslowski (ed.), *Contemporary Economic Ethics and Business Ethics* (Springer, Berlin), pp. 117–147 at 146–147. See, further, Solomon, R. C.: 2003, *A Better Way to Think About Business: How Personal Integrity Leads to Corporate Success*, 2nd ed., (Oxford University Press, Oxford), pp. xxi–xxii. Solomon writes: "Ethics, to put the matter bluntly, is good business. Amoralism, by contrast, just won't sell in the long run. [...] Let me be very clear about this: Whatever else it may be, virtue is bound to culture, to politics, to institutions." See, further, Hartman, E. M.: 2000, 'An Aristotelian Approach to Moral Imagination', *Professional Ethics* 8, pp. 57–77 at 69–71. Hartman's arguments for the relevance of Aristotle to business and professional ethics are noteworthy.

³⁸ See Solomon, R. C.: 2000, 'Business With Virtue: Maybe Next Year', *Business Ethics Quarterly* 10, pp. 339–341; Solomon, R. C.: 1992, 'Corporate Roles, Personal Virtues: An Aristotelian Approach to Business Ethics', *Business Ethics Quarterly* 2, pp. 317–339; Koehn, D.: 1995, 'A Role for Virtue Ethics in the Analysis of Business Practice', *Business Ethics Quarterly* 5, pp. 533–539 at 538. Koehn, who criticizes recent discussion of virtue ethics as unclear and confusing, nonetheless presents a positive assessment of the distinctive contribution of virtue ethics to business practice.

³⁹ See, Solomon, R. C.: 2003, *A Better Way to Think About Business: How Personal Integrity Leads to Corporate Success*, p. 121. See, further, Nussbaum, M. C.: 2006, *Frontiers of Justice: Disability, Nationality, Species Membership* (Harvard University Press, Cambridge, Massachusetts), p. 92.

Personal Responsibility in Business

The importance of personal responsibility in business is paramount since failure in this domain can contribute to corporate collapse, with inevitable and detrimental social consequences. The formulation of an 'ethics of responsibility' (*Verantwortungsethik*) aimed at consequences, as opposed to an 'ethics of conviction' (*Gesinnungsethik*) aimed at abstract principles or ultimate ends, following the classic distinction of Max Weber (1864–1920) is directly relevant to our discussion of the virtuous manager. In the politically charged atmosphere following 1918, Weber emphatically asserted that ideals do not justify either the means or results of an action, and that responsibility for effects rests squarely with the person who makes himself/herself a cause.⁴⁰ A crucial problem in the West, however, is that the previously close connection between 'act' and 'consequence' in the moral evaluation of an act has been lost due to the near-total domination of economic consequences (profit), the prevalence of anonymity in society, and a growing tendency to delegate responsibility for the marginalized to government agencies. As a result, ethics has turned increasingly inwards while the individual has all but displaced the previously powerful external collective sources of authority as the sole arbiter of moral dilemmas. Only a reaffirmation of the ethic of social responsibility as an urgent imperative for the leaders of business as well as of society can begin to redress this problematic state of affairs. An ethics of social responsibility is both an ethics of conviction (respect for human dignity, commitment to the common good, etc.) and an ethics of consequences, unlike Utilitarianism, which considers only the satisfaction of those affected by the decision, but not the social consequences for human flourishing.

Whatever claims may be made regarding present advances in communications, from cyberspace and beyond, the world appears more fragmented and divided than at any point in history, a fragmentation that is perhaps most evident in the normally aggressive, competitive world of business. From the heart of the world's centres of trade and finance emanates a cry for healing of its own fractured society. The vision for leadership in business presented here involves a profound engagement with the human condition and points to a source of meaning beyond excessive individualism, self-interest and the accumulation of wealth. What is required, in order to cross the Rubicon of acquisition and accumulation, is a renewed commitment to an ethic of personal responsibility, directed primarily towards the leaders of business.

I suggest that a new concern for the integral needs of a person (psychological, social, cultural and spiritual) by the owners and managers of business would help to reduce some of the most deleterious trends in modern society, including increased levels of stress and a concomitant rise in the rates of suicide, marital breakdown and the disintegration of family life, as well as a continued decline in the mental and

⁴⁰ See Voegelin, E.: 1987, *The New Science of Politics: An Introduction*, 3rd ed. (The University of Chicago Press, Chicago), p. 15.

physical health of workers.⁴¹ It goes without saying that personal responsibility in business requires imagination, creativity, and financial resources. My concern here is to indicate how Pieper's philosophy, through its triple foci of virtue, leisure, and the human person, provides a starting point for the formation of the broad parameters of such an ethics.

In the world of philosophy, Pieper represents "something of a pioneer in the way he understands the virtues and their importance for the total fulfillment of the person, an approach that became fashionable in the 1980s, with the appearance of MacIntyre's celebrated book, *After Virtue*."⁴² Pieper, a leading figure in the Thomistic revival in the twentieth century, does not present a disputation on the various modes of ethical statement but is rather concerned to describe just one of those modes, namely, the four cardinal virtues. It is these basic virtues, which enable the human person "to attain the furthest potentialities of his nature."⁴³ Pieper emphasizes the close connection between moral and intellectual virtues.⁴⁴ His treatment of virtue is eminently practical: it is by practicing the virtues that one becomes virtuous. In this regard, prudence is the pre-eminent virtue: "Ethical virtue is the print and seal placed by prudence upon volition and action. Prudence works in all the virtues; and all virtue participates in prudence. [...] The pre-eminence of prudence signifies first of all the direction of volition and action toward truth."⁴⁵ Practice of the virtue of prudence, far from implying moralistic or casuistic regimentation of the person, involves the highest ethical maturity and moral freedom: "The first of the cardinal virtues is not only the quintessence of ethical maturity, but in so being is also the quintessence of moral freedom."⁴⁶ The ultimate success of the virtuous life depends on the harmonious collaboration of prudence and charity; a process in which, ironically, the latter supersedes the former. As Pieper remarks: "This collaboration is

⁴¹ "Suicide estimates suggest deaths worldwide could rise to 1.5 million by 2020. Suicide causes almost half of all violent deaths as well as economic costs in the billions of dollars, says the World Health Organization (WHO). In its third year, World Suicide Prevention Day, a venture between the International Association for Suicide Prevention (IASP) and the WHO, is being held to focus attention and call for global action. The total figure for suicides and undetermined deaths for the UK and the Republic and Ireland for 2003 was 6003 as against 6163 in 2002. This is around three times as many deaths as there are from road traffic accidents." See *Befrienders Worldwide with Samaritans*, available at: <http://www.befrienders.org/about/index.asp?PageURL=news/PR-050905.php> (Accessed: 10 June 2006). See, further, Clarity, J. F., 'Lost Youth in Ireland: Suicide Rate is Climbing', in *The New York Times*, 14 March 1999, available at <http://query.nytimes.com/gst/fullpage.html?res=9A03EEDD153EF937A25750C0A96F958260&sec=health&pagewanted=2> (Accessed: 10 June 2006).

⁴² Schumacher, B. N.: 2003, *A Philosophy of Hope: Josef Pieper and the Contemporary Debate on Hope*, trans. D. C. Schindler (Fordham University Press, New York), p. 5.

⁴³ Pieper, J.: 1996, *The Four Cardinal Virtues: Prudence, Justice, Fortitude, Temperance* (University of Notre Dame Press, Notre Dame), p. xii.

⁴⁴ See Meilaender, G.: 1998, 'A Philosopher of Virtue', *First Things* **82**, pp. 16–17. See, further, Meilaender, G.: 1983, 'Josef Pieper: Explorations in the Thought of a Philosopher of Virtue', *Journal of Religious Ethics* **11**, pp. 114–134.

⁴⁵ Pieper, J., *The Four Cardinal Virtues*, loc. cit., pp. 8–9.

⁴⁶ Pieper, J., *The Four Cardinal Virtues*, p. 31.

linked to the preeminence of charity over prudence. Prudence is the mold of the moral virtues; but charity molds even prudence itself⁴⁷ It is the practice of charity, which elevates the human person to an otherwise unattainable and inaccessible supernatural plane.⁴⁸

Pieper has, without intending to perhaps, provided a way forward in the quagmire of modern business, by again drawing attention to the value of virtue and of the person. He favoured the doctrine of virtue over a doctrine of duties because the latter always involves a danger of arbitrarily constructing a list of requirements, which risk obfuscating the human person who is obliged to do this or that. As Pieper writes: “The doctrine of virtue, on the other hand, has things to say about this human person; it speaks both of the kind of being which is his when he enters the world, as a consequence of his createdness, and the kind of being he ought to strive toward and attain to – by being prudent, just, brave and temperate.”⁴⁹ For Pieper, as also for Aristotle, virtue is the source of goodness and happiness in a person’s life: “Prudence, then, is the mold and mother of all virtues, the circumspect and resolute shaping power of our minds which transforms knowledge of reality into realization of the good. [...] In prudence, the commanding virtue of the ‘conduct’ of life, the happiness of active life is essentially comprised.”⁵⁰ Citing Aquinas’ *Summa Theologiae*, (I–II, 2, 8), Pieper argues that the universal good (*bonum universale*) can be found in God alone.⁵¹

To make Pieper’s position clearer, it should be added that he was acutely aware of the limits entailed in the life of virtue, a long and painstaking process that requires a transformation of a person’s character. There is also the difficulty of possible discontinuity between the natural and the theological virtues, a moot point in his philosophical edifice. As one commentator remarks: “We can understand why Pieper may wish to have it both ways – experiencing discontinuity but affirming continuity. [...] Our evaluation of Pieper’s ethic of the virtues must partially depend upon how well he has managed to make persuasively a case for both continuity and discontinuity between the virtues we naturally acquire and the special virtues of the Christian life.”⁵² Hailed as a philosopher of virtue, Pieper clearly achieved a successful and fruitful coalescence of the Greek philosophical tradition and Christian thought, referred to earlier.

⁴⁷ Pieper, J., *The Four Cardinal Virtues*, p. 37.

⁴⁸ See Pieper, J., *The Four Cardinal Virtues*, p. 37.

⁴⁹ Pieper, J., *The Four Cardinal Virtues*, p. xii.

⁵⁰ Pieper, J., *The Four Cardinal Virtues*, p. 22.

⁵¹ See Pieper, J., ‘Happiness and Contemplation’, p. 41. Cited in, Schumacher, B.N.: 2003, *A Philosophy of Hope*, loc. cit., p. 37, footnote 118.

⁵² Meilaender, G.: 1983, ‘Josef Pieper: Explorations in the Thought of a Philosopher of Virtue,’ loc. cit., p. 127.

Compulsive Busyness and Leisure

But it is Pieper's *Leisure: The Basis of Culture* (1952), the fruit of his wartime research that provides the most effective antidote to the compulsive busyness of our modern business-dominated, materialist culture. Without forgoing the necessity and value of work, Pieper was resolutely opposed to absolutizing it, that is, to viewing the whole of human life from the point of view of work: "The original meaning of the concept of 'leisure' has practically been forgotten in today's leisure-less culture of 'total work': in order to win our way to a real understanding of leisure, we must confront the contradiction that rises from our overemphasis on the world of work."⁵³ The dominance of the work culture makes festivities impossible, and neutralizes culture, whereas leisure, 'the basis for culture,' becomes an opportunity for immersion in the real and mysterious character of the world – truth and transcendence. Pieper argues succinctly that culture arises from leisure and that leisure has its original and correct context in religious cult: "Culture depends for its very existence on leisure, and leisure, in its turn, is not possible unless it has a durable and consequently living link with the *cultus*, with divine worship."⁵⁴

Pieper's definition of leisure proposes a radically different view of reality to that of "the exclusiveness of the paradigm of work as *activity*."⁵⁵ He places the human person at the centre of all human endeavours, and emphasizes an experiential rather than a utilitarian perspective on life:

Leisure is a form of that stillness that is the necessary preparation for accepting reality; only the person who is still can hear, and whoever is not still, cannot hear. Such stillness as this is not mere soundlessness or a dead muteness; it means, rather, that the soul's power, as real, of responding to the real – a *co*-response, eternally established in nature – has not yet descended into words.⁵⁶

Pieper, following Aristotle, distinguishes between *theoria* and *praxis*. *Theoria* is the core attitude of the philosopher who silently contemplates reality with an attitude of openness and receptivity. *Praxis*, on the other hand, entails the loss of wonder and contemplation.⁵⁷ Pieper describes a mortal conflict between *praxis* and *theoria* in the course of human history. The former has become increasingly important and seeks to govern absolutely in a world dominated by work. In this totalitarian workaday world, "the human being is a functional entity" deprived of "any genuine poetry, music, leisure, celebration, or, of course, philosophy."⁵⁸ The obsession with work for work's sake and the need for incessant activity, results ultimately, according to Pieper, in despair: "For only someone who has lost the spiritual power to be at

⁵³ Pieper, J.: 1998, *Leisure: The Basis of Culture*, new trans. Gerard Malsbary (St Augustine's Press, South Bend, Indiana), p. 4.

⁵⁴ Pieper, J., *Leisure: The Basis of Culture*, p. xiv.

⁵⁵ Pieper, J., *Leisure: The Basis of Culture*, p. 31.

⁵⁶ Pieper, J., *Leisure: The Basis of Culture*, p. 31.

⁵⁷ Pieper, J., *Leisure: The Basis of Culture*, pp. 101–116.

⁵⁸ Schumacher, B. N., *A Philosophy of Hope*, p. 16.

leisure can be bored. And then Despair, the sister of Restlessness, rears its hideous head.”⁵⁹ Pieper was a profoundly practical, resourceful thinker; his writings offer solace to the tired post-modern citizens of the Western world and the possibility of salvation from the idolatrous mindlessness of the age of work.⁶⁰ But perhaps we are too busy to grasp such a profound *Aufklärung* (‘Enlightenment’).

Conclusion

The vision for leadership presented in this chapter advocates an innovative ethic of work centred on the restoration of virtue and leisure in business and enterprise, important elements in the Christian ethical heritage. The chapter attempts to contribute to a restoration of *balance* in the lives of business executives as well as rank and file workers. The proposed new work ethic is a study in duality: work and leisure and profit and virtue. To grasp this concept, business leaders are invited to study and effect in practice the principles propounded in Aristotle’s *Ethics* and Pieper’s *Leisure: the Basis of Culture*. The challenge of constructing an enduring great company depends on virtuous managers with a capacity for high principles and inspired standards, coupled with understanding of persons and profits. I have argued in this chapter for the elevation of the person and respect for his/her unique dignity, and for the rights of all to leisure as well as work. The recent remarkable success of Ireland’s economy testifies to the necessity and permanent value of the ethics of virtue and responsibility. If the significance of virtue, alongside leisure and responsibility, is not appreciated by the present generation of leaders, then the children of future generations risk becoming, ‘the dull slaves of toil,’ to borrow a painful phrase from Mark Twain’s *Roughing It*.

⁵⁹ Pieper, J., *Leisure: The Basis of Culture*, loc. cit., 54. See, further, Schumacher, B.N., *A Philosophy of Hope*, loc. cit., p. 16–17.

⁶⁰ For an assessment of the attitudes of Europeans to work for the period 1999–2000, see Halman L.: 2001 (ed.), *The European Values Study: A Third Wave, Source Book of the 1999/2000 European Values Study Surveys* (Tilburg University Press, Tilburg), pp. 44–71.

Chapter 6

People in Business: Context and Character



James G. Murphy

Abstract What have business and ethics to do with each other? In this paper, I suggest that the differences may be of a complementary kind. More important, I argue that business is far more grounded in ethics than is often realized. Narrowly conceived, business ethics concerns the ethical aspects of the behaviour of individuals working in industry, finance, and commerce. In that sense, it is an ethic addressing mainly what they do in the running of that business. But a deeper and wider conception of business ethics is needed. A deeper conception would look not just at individual actions and omissions with respect to its compliance with the law or company protocols. This paper addresses the wider conception: the ethical aspects of the external contexts of business, and the personal dimension of ethical business including the business world of industry and finance, but also historical, political and ecological contexts.

Keywords People · Ethical business · Context and character · Milton Friedman · Adam Smith · Religion · Character-formation · Virtue

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Introduction: The Good and the Right

What have business and ethics to do with each other? It might seem that they have little in common. In this paper, I suggest that the differences may be of a complementary kind. More importantly, I argue that business is far more grounded in ethics than is often realized.

Let's start with some general points on ethics. Its two key-concepts are the Good and the Right. The Good concerns values. It has to do with goals or ends: what is worth seeking, in either an objective or a subjective sense. It is usually reflected in a business's vision-statement, reflecting its core-values and ultimate goals.

The Right concerns norms. It's about rules about how to behave and how not to behave, what kinds of behaviour are permitted and what prohibited. If the Good is about goals, the Right concerns what actions may and may not be taken in pursuit of the Good. A utilitarian ethic says 'the ends justify the means', i.e. whatever action is required to achieve one's goals is permitted. There are serious problems with such an ethic. More commonly, we incline to the view that there are some types of action that are inherently wrong, no matter how good their consequences.

Much of business ethics deals with the Right: how ought CEOs, managers, directors, investors, shareholders, accountants, etc behave? What norms should govern their behavior, and how can such general norms be made more concrete and specific? What obligations and rights apply between the different parties involved in business? Justice is the central issue here.

In advanced societies, many of the norms for behaviour are articulated in legal form. Here is where business ethics overlaps with law, both concerned with individual and corporate behaviour. In its lawmaking and law-enforcing capacity, the public authority has a major role to play in helping businesses to be ethical.

As social norms change, particularly when driven by social media, companies take such things as gender equality, diversity, absence of workplace bullying and harassment as having normative force. In pursuit of those goals they develop codes of conduct, along with mechanisms such as disciplinary procedures for securing compliance. Business ethics can obviously play a useful role here, in helping to refine such codes.

Cynical comments to the effect that mere compliance with the law will not make business ethical are off the point: nobody ever said it would. But making business properly accountable and enforcing the law impartially is in itself a significant ethical achievement, as can be seen in societies where the rule of law is sporadic or absent and where many companies are too powerful to be held accountable.

So far, so good. However, once we try going beyond the rules, many business-people think of business ethics as too general and vague to have much relevance, let alone applicability. Their attitude – and it is a natural one, in many ways – could be summed up thus: 'Ethics concerns only what I must obey: state laws and in-house protocols.'

Business ethics focusing on rules may even be rather redundant, insofar as it merely echoes what the law of the land or the in-house protocols require, and that business ethics' crucial contribution lies elsewhere. After all, there is a great deal

that the law can't touch or regulate, and yet our moral intuitions find some of that to be morally outrageous. Some ethical guidance is needed here. In addition, even where there is law, bringing criminal behaviour to light is sometimes virtually impossible without the cooperation and even initiative of individuals in business. Law can never be enough on its own to make business or any organized human activity ethical. More is needed, and there is a significant role for business ethicists in contributing to that more.

Following the rules is only part of what being ethical means.¹ It is also the more obvious part, since state laws come from 'outside' the company. Less obvious, in part because it is taken for granted, are the understandings and practices that make up the fabric of life in business, industry, investment and finance, and which have ethical content, albeit unnoticed. It is here that business is grounded in or multiply linked to ethics.

Narrowly conceived, business ethics concerns the ethical aspects of the behaviour of individuals working in industry, finance, and commerce.² In that sense, it is an ethic addressing mainly what they do in the running of that business.

But a deeper and wider conception of business ethics is needed. A deeper conception would look not just at individual actions and omissions with respect to its compliance with the law or company protocols. It would also address the attitudes and values, the cultural background of tacit assumptions and customary practices, all of which influence individuals' actions. We would like to be able to trust people in business that they will, not just obey the law, but act responsibly in cases where the law gives no guidance.

A wider conception indicates some of the connections between ethics and business that are less noticed. One is that ethical action and practices are not confined only to those who work full-time in business-related activities. Others may also carry business-ethical responsibility, as the following case illustrates.

In the first decade of this century, the extent to which Irish account-holders and their bankers were involved in running offshore Ansbacher accounts with a view to tax-evasion caused public scandal. The wrongdoing in question cannot be blamed on the banks alone, or even primarily on the banks: individual accountholders must take their share of responsibility. While consumers and the rest of the general public are not personally involved in business in the way that CEOs or managers are, they are personally involved as customers and consumers and hence responsible for actions done at their behest that cheat others or the state, or that pressure companies into destructive behavior. Accordingly, there are identifiable groups and individuals, who do not work in what we conventionally call 'business', yet to whom the norms of business ethics apply.

¹For recent survey of business ethics, see Jeffrey Moriarty, "Business Ethics", *The Stanford Encyclopedia of Philosophy* (Fall 2017 Edition), Edward N. Zalta (ed.), URL = <https://plato.stanford.edu/archives/fall2017/entries/ethics-business/>.

²Elaine Sternberg 1994, *Just Business* (London: Little Brown) presents the narrow conception of business ethics. It defines business ethics as concerning individual behaviour (75–76).

In certain business schools, the supreme ethical requirement impressed upon business students is making profit for the share-holders. While this seems incorrect as a matter of ethical principle, the fact that it is widely held creates greater moral obligation on anybody who might count as a moral share-holder, including customers. It also can represent an abdication of moral responsibility by the business-person, since it allows too much weight to the interests of the share-holder where these are conceived in ways stripped of ethical or social concern.

Widely conceived, business ethics also extends to the ethical aspects of the external role of business, public policy relating to business, and society's long-term attitudes to and shifting expectations of business and the corporate world. It is sometimes said that politics is too important to be left to politicians, and that a society gets the politicians it deserves. Perhaps the same could be said of business. If so, business ethics is for many more people than CEOs, managers, and accountants.

It should not need to be stated that a wider conception need not be such that it gives an alibi to individuals, enabling them to evade responsibility by claiming that 'society' or 'the company', rather than the individual banker or CEO, is to blame for unethical business practice. Attributing moral agency (even if not moral personhood) to companies or corporations does not strip individuals of their moral agency.

In this paper, I address the wider conception: the ethical aspects of the external contexts of business, and the personal dimension of ethical business. The contexts of business ethics are not just the academic world of ethicists and the business world of industry and finance, but also historical, political and ecological contexts.

Contexts

First contextual factor to note was the collapse of communism in the late 1980s. It represented the final discrediting of the command economy model, precisely because it was a collapse from within. That had considerable political impact in western Europe, Latin America and Africa, where there had been a significant faith in the possibility socialism apparently offered of transcending the market economy. Accordingly, prior to 1989, the left generally dismissed business ethics as mere 'tinkering with the system', when what was needed was to abolish it. In the left's view, one could make a rational evidence-based judgment that the capitalist system was inherently immoral, and that it could be replaced by a non-capitalist system that was efficient and egalitarian: hence business ethics was unnecessary. But from the 1980s onwards, as it gradually came to be accepted that both assumptions were false and that private property and the market are here to stay and morally legitimate, there was a surge of interest in business ethics.

Second contextual factor has been the rise of populism that is often anti-business, expressed in the anti-globalization movement and the recent emergence of populist leaders on most continents. The fact that populism offers no serious economic analysis or policy has little effect on its moral and political appeal.

Marx and Engels contemptuously dismissed moral critiques of capitalism, what they called 'utopian' socialism, in favour of 'scientific' socialism. Yet it has been moral critiques of capitalism that have been most powerful over the last two centuries. In the late twentieth century, the impact of the mass media and information technology heightened public awareness of dishonest business practices, exploitation of peasants and labourers in the Third World, and environmental pollution. The picture painted was often indiscriminating and simplistic, with a tendency to good guys (the little people, the masses) vs. bad guys (powerful corporations). It was nonetheless powerful.

The portraits include such films as *Silkwood* (1983), *The Insider* (1999), *The Corporation* (2003), *The Wolf of Wall Street* (2013), and *Dark Waters* (2019). At showings of *The Corporation*, a no-holds-barred attack on big business, audiences clapped loud and long. Even though no serious analyst considers it possible to have a non-market economy, private enterprise and big business have an image-problem: in sociological jargon, a legitimization crisis.

In the late 1920s and the early 1930s, capitalism's legitimization crisis in Europe was so severe that support for free-market economics declined dramatically. That led to the rise of anti-capitalist, anti-liberal, and anti-democratic movements on both left and right, in the form of communism, fascism, and the various quasi-military regimes that took over many European countries in the 1930s. After World War II in post-1945 Germany and Italy and elsewhere, Christian Democracy, a remarkably successful political force, was strongly influenced by the idea that the capitalist system was tolerable only when subjected to a major social mortgage. The Christian Democrats were emphatic that, while they weren't socialists, they definitely weren't free-market liberals either.

While at present, a liberal free-market model is accepted (by political leaders, not just economists), public acceptance is more reluctant or ambivalent. When politicians propose the liberalization of markets, privatization of public companies and the like, the public is rarely enthusiastic. Times change, and the kind of anti-business politics of the early twentieth century could well rise again. The economic irrationality of a populist approach carries little weight in the face of a serious popular anti-business reaction.

Thus, business, particularly transnational business, is always in need of ongoing active legitimization.³ The challenge of legitimizing the company's existence, size, and influence is in direct proportion to the power it has to affect people's lives, the public perception and fear that its power is too great and excessively profit-driven, and the resultant suspicion that there are no ethical limits to the ways it will use people in order to profit.

Some businesspeople may protest and say it shouldn't be like that, since business provides a vital service, delivers the goods like never before, and shouldn't have to

³See R.C. Warren 1999, 'Company legitimacy in the new millennium', *Business Ethics: a European Review* 8: 214–224. Legitimacy is critical to companies such as Apple, Amazon, Google, Microsoft, and Facebook that are far more powerful than when this article was first published a decade ago.

be concerned about ‘social legitimacy’ – whatever that is. The protest is idle; it is reminiscent of King Canute commanding the waves to go back. Businesspeople pride themselves on their hardheadedness about what it takes to make a business work, in contrast to the naïvely do-goodish ideas that would ruin a business in short order. They need a parallel hardheadedness about the fact that social context influences and delimits the scope and legitimacy of business, so that they deal with it realistically.

This is not just a PR problem or a political problem. It is also, fundamentally, an ethical problem, one of the points where doing business is tied to being ethical. Unethical businesses eventually have bad PR and political problems, and may be terminated.

What counts as unethical business is determined, not solely by business itself but in part by the social context (including regulatory agencies, the legislature, various NGOs like unions and churches, etc). Political upheaval, social unrest and expropriation are often the price to be paid for ignoring popular feeling in this area. Getting serious about business ethics is one way business could take out what could be called ‘legitimacy insurance.’

Another objection to the idea that business needs social legitimacy comes from Milton Friedman’s claim that a business’s only social responsibility is to increase its profits, and that it should not waste the owners’ or investors’ money in funding charities or community projects. It has some merit. However, accepting it implies that the responsibility for building civil society and funding social projects lies elsewhere, presumably with the state. That actually militates *in favour* of heavier taxation of business to provide the money for social projects: business will pay, one way or another. Second, Friedman’s thesis also provides an argument for *reduction* of the scope for self-regulation by business, further reducing its role in influencing legislators, on the grounds that (on Friedman’s logic) business cannot legitimately have any concern for the common good and should lobby government solely for its narrowly defined interest. Politically, even if not logically, the Friedman thesis opens the way to a more intrusive state and a more regulated business sector.

Clearly, the world of business has some choices to make here.

To avoid that outcome, the Friedman thesis would need to be accompanied by a theory in political philosophy arguing that the state should not seek to build civil society or fund social projects, let alone tax or regulate anybody to achieve such goals, since they are appropriate only to private charity. To argue that one would be far tougher, and it is not apparent that it has much merit.

Finally, even if a company did accept the Friedman thesis, it would be well-advised to regard it as dealing solely with a moral demand or what is absolutely required by justice. In other words, while a business is not morally required to support non-business social projects, in specific contexts it may be politically inadvisable, an unethical lack of social prudence, bad for the business’s PR image, to fail

to do so.⁴ Ethics is not just about what is required or morally mandatory, but also about what would be morally desirable, ethically admirable, and (particularly for large transnational corporations) socially expected.

A third important contextual factor is religion. This may seem an odd factor to include, since the influence of organized religion is declining in much of the developed world. However, its influence is stronger elsewhere and likely to remain so. In the developed world, the decline may be reversed.

Religion, whether in traditional organization format or emergent organization format, influences the political context within which business operates, thereby affecting business. Even in secularized societies, it is an important channel of value-transmission and hence of legitimacy.

In heavily secularized societies, some companies may find that the ethical character-formation of their executives has unexpected gaps. It would be surprising if such character-formation did not play some role in shaping the policies adopted and decisions made by businesspeople and financiers.

While the great religions accept the necessity of lifting people out of poverty and accept the role of private property in bringing that about, they also cast a wary eye on business, and on the attachment to wealth and material goods that it generates. It is important that businesspeople not dismiss that concern out of hand. It is true that economic analysis connected to religion's critique of business is sometimes ill-informed on economics. But the accuracy of the economic analysis is not what matters. The role of religious groups, their 'expertise', lies in the moral impact of their speaking up for the underdog. As Adam Smith, moral philosopher and author of *The Theory of Moral Sentiments* (1759) before he wrote his *The Wealth of Nations* (1776), asserted, the economic system of private property and the market always needs moral critique, and can neither flourish nor survive without it.

Before 1989, business-people could reasonably dismiss moral critique of business on the grounds that it amounted to a simplistic rejection of capitalism. But we no longer live in an era of crude clash of systems, capitalism vs. socialism. Catholic social thought endorses the market and profit, private property and the right, even the duty, of economic initiative. To imagine today that critique of the way the capitalist system works in a given context is always tantamount to rejection of the system *per se* is unreasonable, and usually reflects disingenuous evasion of important issues.

The final contextual factor to which I draw attention is the impact of ecology: under that heading I include both the global physical and biological environment with its changing constraints, and, at the social level, the environmentalist movement, both academic and activist.

There have always been some physical environmental constraints on human activity. But there has been a major change. Once upon a time, Mother Nature was powerful and humans were weak, due to lack of tools and vulnerability to diseases and the

⁴In some parts of the world, notably poor rural parts of Africa, popular attitudes are such that a foreign company simply would not be allowed to operate if it refused to do things like fund a school, a drainage scheme, etc. Milton Friedman's thesis cuts no ice in such places.

elements. Today we are powerful and Nature vulnerable, and we are slowly awakening to the fact that we must preserve it in order to survive. Environmental degradation, arising from human impact on the eco-system, cannot but be a major contextual factor for a modern business. It applies even when business has not been directly responsible for particular instances of ecological degradation or disaster. The importance of this factor will increase in extent and intensity in the coming decades.

Response

Such are the contexts. In the 1990s, business ethics became popular, with courses, books and journals proliferating, and bigger companies hiring in-house ethicists. At the 2003 World Economic Forum at Davos, Switzerland, corporate social responsibility (CSR) was a major theme, with nearly all participants expressing total devotion to the concept.⁵

Yet the fanfare about business ethics and CSR may be illusory. Large bookshops have several book-carrels on business, management and finance, containing a few hundred books, but only a few books on business ethics. Since bookshops respond to market demand, the relative absence of texts on business ethics reflects a lack of commitment to it in colleges and businesses. Checking the websites on business programs in many Irish colleges shows business ethics to be marginal in such programs.⁶

There is a way to go before business ethics is taken seriously. Business and ethics still sit uneasily with each other, and the relationship is not fully worked out yet. Many business leaders do not grasp that business ethics cannot be a mere PR exercise, a matter of persuasive advertising of good intentions, and are reluctant to accept that people see through the smokescreen. Furthermore, thinking of ethics as a subdivision of the human relations department, where an in-house ethicist can be placed, creates an ambivalent, even compromised, situation. The hired ethicist can never be effectively used in a PR role to defend particular policies or practices, and may even discredit the company, not to mention the ethicist herself. The commitment on the part of higher management to ethical policies would have to be very strong indeed for the company to accept an in-house ethicist who was (though only within the company's internal forum) critical of the company in a major way. As both Machiavelli and Aristotle would agree, it is good to seem virtuous, and it is hard to seem so unless you are fairly consistent in your seeming, and it is very hard to have such consistency without actually being virtuous.

⁵Reported in 'Two-faced capitalism', *The Economist* (22/01/2004). For a CEO's critique of CSR, see Ian Davis, 'The biggest contract', *The Economist* (26/05/2005).

⁶As Moriarty 2017, "Business ethics" (see footnote 1), comments at the end of his survey, ethics in business schools is overly reliant on management scholars who tend to treat ethics as a *descriptive* discipline (describing the causes and effects of ethical behavior) rather than as a *normative* discipline.

Let's allow that businesses do see ethics as something 'good to have', all else being equal, and something that improves the company's image. But for most businesses, its importance or value appears subordinate to other considerations.

The Ethical Nature of Business

This marginal status of business ethics, even while accompanied by lip-service for public consumption, may in part be due to misunderstanding of ethics. When business ethics is mentioned, many senior executives may associate it with high-profile events involving illegal activities by businesses or senior executives, embarrassing but rare events that must be avoided. They may be thinking of ethics as avoidance or evasion strategy, like having fire-fighting equipment in the plant that one hopes never to need.

If so, they are probably not thinking of it in positive terms, something good to use or access. Yet the most immediate, if mundane, relevance of business ethics has to do with employee honesty and reliability. The executive who secretly thinks business ethics a wasteful irrelevance (except for emergencies) has forgotten what makes a company successful. A good business cannot be such without having a minimum level of moral goodness in its employees and policies, and being trustworthy in its dealings with other economic agents. Nobody, not even the most tough-minded businessperson, would think a company admirable if it were uninterested to how its customers and workers fare, or indifferent to 'collateral damage' its operations may cause. An untrustworthy company can't succeed in the medium to long-term, and can succeed in the short-term only in societies where legal regulation and oversight are lax.

It's bad business to rip off customers. Some business leaders, agreeing, are inclined to think that this is simply a matter of economics, and has nothing to do with ethics. To think so is to misunderstand ethics. It is mistaken to think that ethics is only about altruistic behaviour that yields no benefits to the person or corporation acting ethically. Ethics includes altruistic behaviour, but is by no means confined to it.

I am not making the ludicrous claim that a business's being successful means that it must therefore be morally good as well. My claim is the much more modest one that to run a company successfully requires a certain ethical standard. Some businesspeople may not recognize that good work practices, good communication with staff, trustworthiness in business dealings, and the like are ethical in nature.

In *The Wealth of Nations*, Adam Smith book makes this point repeatedly. Smith is often thought of as one whose praise of free trade entailed freedom for the economic agent from all moral and legal restraint. Only through encouraging selfishness and greed, he allegedly argued, could national wealth be increased. This is a

caricature of Smith's views.⁷ He is explicit that the good of society requires that businesses be ethical, run by people who exemplify the virtues such as honesty, prudence and justice, and governed by an external framework of laws regulating them. Smith would probably have thought it an odd thing to have an 'in-house' ethicist, as though business ethics were simply a department within a large company.

'Business Ethics' Is Just Ethics: The Test

In one sense, ethics in business is basically no different from ethics in policing, rocket science, or ordinary everyday life. While there may be particular ethical problems typical of the business world, the most important part of ethics is universal: be honest, don't cheat, be trustworthy, be prudent, and be concerned about the well-being of others.

Like all college students, business students assume they understand all this. When I teach ethics to post-graduate business students, they look bored. They think of ethics as largely irrelevant to their future careers: they don't intend to rob anybody, so what has ethics to do with them? Only when it becomes clear that indifference to ethics may cost the company millions, and more importantly ruin their careers, does the look become wary and calculating.

Beyond being legally compliant, most students see ethics as little more than about being a 'nice person' – suggesting that it is trivial, in the sense of being self-evident and its accomplishment relatively easy. In fact, the 'nice person' bit is the hard bit, for one is not born a nice person, and one can't make oneself 'nice' by doing a weekend seminar. Becoming a good person is a lifetime project, started through the influence (if one is lucky) of good parents, continued through education, and through one's choices of friends and values. It is a major task, for one will, often unconsciously, mould one's character and make oneself into a good, bad, or mediocre person. And one is responsible for the outcome, even though it might not be easy to change it. A weak or mediocre character is responsible for being so. All this is opaque to most students.

I have used a one-question business ethics test with graduate business students. The results are interesting. The person is to imagine themselves going to work as, say, a middle-level manager for a certain company. The question is:

The company you are about to join doesn't have a bad name, so you have no specific reason for ethical concern. But, life being what it is, someday somebody will ask you to do something you think is wrong. It may be your boss or the union representing the workers, it may be an important customer or a major supplier.

What will you do?

⁷ See Patricia Werhane 1991, *Adam Smith and His Legacy for Modern Capitalism* (Oxford); also Amartya Sen 1987, *On Ethics and Economics* (Blackwell), pp. 22–28.

Each year most reply that they don't know what they would do, since they would first need to know more about the particular issue or situation. At most, one in ten will reply that they would not do it.

I tell the 'don't knows' that they have failed the test.⁸ Indignant, they cannot comprehend why they would not need to know the details of what they are being asked to do. I reply that they know the most important thing: they think it wrong. But they are unconvinced.

The students are not immoral; they are amoral. Since (they think) they mean no harm to anybody, that qualifies them as good persons: if they are not intentionally evil, they must be good. Brought up to think in the binary terms of actions being either right or wrong, they assume that the same binary reasoning applies to character: if one is not evil (which they take as being consciously malicious), one must logically count as good. They do not see that between evil character and good character is weak character: the terrain of innocence and weakness where most of us tend to be much of the time.

Furthermore, they cannot imagine being morally ambushed or tempted, or that when it happens it will wear the face of a colleague or somebody they wish to please. Mostly non-religious and practical, they do not believe evil exists: they are moral innocents.⁹

It is a weak goodness that assumes one will never be faced by evil, burdened by the frailty of others, or confused by ambiguity. We recognize a good car driver as one who is, not merely competent at controlling the car and observing the rules of the road, but also aware that they must expect to encounter dangerous and erratic drivers. Shocked and indignant protests that such incompetent drivers should not be on the road, or that one should not have to deal with unethical bosses at work, are equally idle and futile.

It is tough to hear that being good or being ethical is not a matter of being 'nice' but of being strong. When they venture the claim that they will learn ethics on the job, they do not like to be told that no company is set up in order to teach its employees ethics.

The question of my ethics test was not a trick question; nor did it present a complex problem. Those who fail the test are not shown to be evil or vicious, but to be unready for the adult world, for they have not understood or owned their moral agency.

⁸It's the 'Lord Jim' test. In Joseph Conrad's novel, *Lord Jim*, Jim is the first mate on a ship, the only idealistic man among a cynical, selfish crew. But at a crucial moment, believing the ship is about to sink, he follows the crew in abandoning the ship with its crowd of helpless passengers. He spends the rest of his life struggling to atone for his weakness and the betrayal into which it led him.

⁹Note that the students' moral ignorance is not the fault of business, for they are still students, not yet employed. Other college students similarly fail. The moral ignorance does not lie in business.

Ethics: Not Dilemma-Solving, But Character-Formation

Contrary to popular impressions, ethical failures in business may sometimes not be the result of the weight of the company crushing moral scruples in the individual employee or young manager, so much as a likely outcome of ethical illiteracy in those hired by the company in the first place.

There aren't just two types of people: the good and the bad, the morally upright and the immorally corrupt. There is also the type of person who is morally ignorant, ethically naïve, of weak character. They 'don't mean any harm', and are not out to 'do' anyone; they just want a job and decent pay and promotion, etc. Many of those in legal or ethical trouble later are such as they, genuinely puzzled at how it could have happened and wondering where they 'went wrong'.

A smaller number of students are quite interested in ethics, and prepared to make sacrifices in order to do the right thing. Some of them can't wait to talk about difficult dilemma cases, wanting to know what rules to apply. Even though focusing on dilemma cases is barking up the wrong tree, they still pass my test, for at least they see the importance of ethical orientation.

Yet they may underestimate its importance and centrality, taking ethical dilemmas to be central. It's natural to think of business ethics as about problem-solving, with ethics expertise viewed as analogous to technical or professional expertise. Not surprisingly, then, one is liable to think of the dilemma cases as what business ethics is primarily about.

Yet philosophers such as Plato and Aristotle take a different tack. They are well aware that there can be difficult dilemma cases, but they rightly ignore them, not because such cases don't matter, but because nobody can anticipate all the dilemmas in advance in order to provide one with a handbook entitled *Quick Fixes for all Ethical Problems* or *Dilemmas Dissolved for Dummies*.

Secondly, and perhaps more importantly, the tendency to focus on the difficult cases and to desire a calculus for dealing with them rests upon a questionable assumption, viz. that moral failures are solely due to ignorance and/or confusion. Surely, one thinks, if one knew clearly what was the right thing to do and was able to do it, one would of course do it....? Put like this, one realizes that it isn't so. No doubt ignorance is at the root of much wrongdoing, but not always. Sometimes people knowingly refuse what is good. So, even if it were possible to produce a recipe-book for solving all moral dilemmas, it might not suffice, for one might lack the will-power to follow the recipe. Evil-doing is a failure, not just at the level of intelligence but also at the level of the will. Accordingly, building one's character is far more important than having a manual for problem-solving.

As regards the dilemma cases, Aristotle's view is that, since we can't foresee them in detail, and can't have a set of rules for them precisely because they are dilemma cases, we should in such cases trust the judgement of the virtuous person: the intelligent person of strong character.

To use a metaphor, not unfamiliar in the business world: it is important to preserve and build up a vital part of what is called 'Human Resources'. These are the

talents and skills and (in this instance) the capital represented by the moral character of the business personnel.

Thus, to return to the question of the previous section: whether there is such a thing as a distinctive business ethics, it is clear that, even if there is, it is still the case that its most important part is that which it shares with all other role-specific ethics, namely, development of good character, where goodness includes practical competence along with the shrewdness to expect, and the ability to expect and cope with, moral challenges.

Virtues: Not Mysterious, and Not Easy

Talk about virtue is not as vague as some might think. It is easy enough for any employer to think out and list the characteristics he or she would want in an employee: honesty, trustworthiness, reliability, sharp business sense, patience, perseverance, and so forth. When hiring, employers want appropriate technical proficiency and experience. They also want to assess the prospective employee on other levels. The CV and references usually cover knowledge and experience. The desire to interview the candidate, a desire that usually varies directly with the level at which appointment is to be made, reflects the employer's need to get some sense of the candidate. Implicit in that is a belief that in a face-to-face interview the interviewer can get an idea of what kind of person the candidate is, reflected in how they answer questions, respond to challenges, think on their feet, and interact with others. Relevant information is also picked up in the little details of dress and deportment, of manner and facial expression.

There is a strain of thought that dismisses ethics as irrelevant to the hard, ruthless world of business, where tough competition is as much a reality as cooperation, and where the metaphor of business as war comes easily to mind. Maybe individuals can be virtuous – but only in the non-business part of their lives. In the actual world of business, and particularly in today's world where open markets, free trade, competition, breakup of monopolies, and privatization are the order of the day, the pressure to survive is enormous. Little wonder that many high-minded idealists dismiss the heartless world of business, like the world of war, as inherently immoral. Correspondingly, those who operate in such zones return the compliment, and dismiss ethics as soft-hearted and therefore irrelevant to their world.

It is easy to show that the position expressed in the last sentence is mistaken, since there are obvious ethical qualities prized in business and war: business requires trust in certain key-relationships, just as soldiers prize loyalty to comrades, and both find that the virtue of reliability and faithfulness to promises to be the one thing they can hold to and trust in as difficulties mount. Still, there may be something important behind that line of thought which ethicists need to hear.

One can see how ethics may seem too precious, wishy-washy, and idealistic to be of any earthly use in the tough zones of human life. Considering how ethics is often presented, and how ethicists themselves often appear, it is no surprise that some

people might sense that ethicists are precious and out of touch, so ethics must be like them – soft, academic in a narcissistic way, and ill-adapted to survive in harsh terrain.

What answer can there be to such a challenge? For a start, no genuine ethic would be soft. Relativistic ethics, despite a surface appeal, are soft. Relativism is so pliable that it offers no resistance or challenge, and is no more than a comfort-blanket to make weak people ‘feel good about themselves’. In sufficiently harsh environments, comfort-blankets may be positively dangerous. Accordingly, better dismiss all ethics than accept a relativistic ethic; better atheist than idolator.

Second, a serious ethic is one that proposes tough challenges as response to a hard world. I don’t mean that in the sense of being high-mindedly idealistic, where the goals may be not merely unattainable but irrelevant to the business, or imprudent in the view of the experienced person. I mean rather that the ethic is a response to the operational conditions in that zone of activity in a way that is both realistic about the difficulties of being ethical there, and robust in the responses it offers.

I referred at the outset of this paper to the ethical elements permeating business, the ethics implicit in the understandings and practices found in the manifold aspects of a life spent in business. There is something to be said for the idea of an ethics emerging from what has come to be seen as ‘best practice’ in the business world.

The idea can be illustrated by reference to Nancy Sherman’s *Stoic Warriors*, where she relates Stoic philosophy to soldiering. I use the more ambiguous term ‘relate’ rather than ‘apply’, for the relating is not an application of Stoic theory from the outside, prior to getting a sense of the moral atmosphere of a soldier’s life. She states at the outset:

It doesn’t take too great a stretch of the imagination to think of a POW survivor as a kind of Stoic sage, for the challenge the POW lives with is just the Stoics’ challenge: to find dignity when stripped of nearly all nourishments of body and soul... Most military men and women do not think of themselves in Epictetan terms. Yet they do think of themselves, or at least they have idealized notions of military character, as stoic in the vernacular sense of the term. The traits that go with stoicism are familiar: control, discipline, endurance, a sense of ‘can-do’ agency, and a stiff upper lip, as the Brits would say. In a less elegant American phrase, to be stoic is to be able to ‘suck it up’.¹⁰

The stoic ethic strikes us as fitted to the conditions and exigencies of life in soldiering. One can see how soldiers might gravitate towards it, as something that grounds them. It is, quite obviously, not a soft ethic. Nor is its being ‘high-minded’ relevant. What one needs is not so much high ideals as an ethic that will stand to one when under pressure.

Unlike the moral code, it is not an ethic of universal ‘dos’ and ‘don’ts’. Yet it does not thereby fail in objectivity, for even pacifists and those who would never want to be soldiers can still admire the character-traits mentioned.

Whether it is the best ethic available is also somewhat irrelevant. No doubt there are flaws in stoicism, and it could be corrected or enriched by input from other

¹⁰Nancy Sherman 2005, *Stoic Warriors: The Ancient Philosophy behind the Military Mind* (Oxford), p. 1.

strains of thought. But it still captures something of what is needed to be a 'good soldier'.

Something similar is needed in business. It may actually be harder in that world, for the soldier's experience of the 'No-atheists-in-foxholes' syndrome, of desperate situations where you don't know whether you'll come out alive, would seem to have no counterpart in the business world. But if it is harder, that is all the more reason for it to be developed.

I close by suggesting the need for dialogue between businesspeople and ethicists on the kind of ethic that would emerge from, that would be natural to, the business world. An ethic solely of law-observance is not enough, if for no other reason than that laws are developed as a response to moral challenges and ethical uncertainty. The elaboration of an ethic that goes further should be the goal of that ongoing dialogue.

Chapter 7

Inspirational Leadership in Business and Other Domains



Brian Leavy

Abstract Generation after generation, particularly in times of crisis, cry out for leadership. People and institutions that we once admired, like Kenneth Lay of Enron or Dennis Kozlowski of Tyco end up letting us down. How do we get them so wrong? Leadership remains an intriguing but elusive phenomenon. What then is the essence of great leadership? Is it the “vision thing”, as George Bush senior once ruefully described it, knowing that this was not his forte, or is it “charisma”, the gift that Lyndon Johnson envied in John F. Kennedy, yet always seemed to elude him? This chapter examines leadership impact at the institutional level where it is always shaped by three factors: context, conviction, and credibility. The chapter offers a contextual perspective on leadership education.

Keywords Inspirational leadership · Context · Conviction · Credibility · Business · Leadership education

Thank you Enron and Arthur Andersen. The depth of your misconduct shocked the world and awakened us to the reality that the business world was on the wrong track, worshiping the wrong idols, and headed for self-destruction... We needed this shock therapy to realize that something is sorely missing in many of our corporations. What's missing? In a word, leadership. (Bill George 2003: 1, former CEO of Medtronics).

Generation after generation, particularly in times of crisis, people cry out for leadership and wonder where all our great leaders have gone? People and institutions that we once admired, like Kenneth Lay of Enron, Richard Fuld of Lehman Brothers (and many of his counterparts in the UK, Ireland and other countries at the time of the 2007 Financial Crisis) or, more recently, Martin Winterkorn of Volkswagen and the “Dieselgate” emissions scandal, end up letting us down. How do we get them so wrong? Leadership remains an intriguing but elusive phenomenon.

What then is the essence of great leadership? Is it ‘the vision thing’, as George Bush senior once ruefully described it, knowing that this was not his forte, or is it

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‘charisma’, the gift that Lyndon Johnson envied in John F. Kennedy, yet which always seemed to elude him personally.

It seems that every time a new theory emerges that attempts to explain great leadership in terms of some defining personal trait or style we can too readily think of successful executives who do not fit the prescription. For example, few experienced managers would disagree that Jack Welch, CEO of General Electric from 1981 to 2001, was one of the outstanding business leaders of his generation. Yet, Welch would hardly be seen by many as a prime exemplar of either of two of the most recent candidates for the defining attribute, “emotional intelligence”, which Daniel Goleman (2004: 82) argues is the ‘sine qua non’ of great leadership, or tough-minded humility, which Jim Collins (2001) believes is the defining ‘level-5’ leadership quality associated with transforming a company from ‘good to great’. While concepts like these are valuable additions to the leadership literature, they fall well short of providing full insight into the essence of outstanding leadership, particularly at the institutional level.

One of the difficulties in trying to distill the essence of great leadership down to personal attributes is that one of the most striking things about great leaders is their diversity. In the business world, for example, Bill Gates of Microsoft is very different in personality, background and style from Richard Branson, who is very different again from Jack Welch of General Electric or Jeff Bezos of Amazon. Turning to the military domain, a quick reflection on the top leaders in the Allied army during World War II – Marshall, Eisenhower, Bradley and Patton – would seem to confirm this point, and this is even before we add in the enigmatic ‘Monty’. Going back a little further in time, it seems that no two men could have been more different in personality and style than the two great protagonists who faced each other at Waterloo. As Victor Hugo described them:

On the one side, precision, foresight, geometry, prudence, all assured retreat, reserves spaced with obstinate coolness, an impenetrable method, strategy which takes advantage of the ground, tactics which preserve the equilibrium of battalions, carnage executed according to rule, war regulated, watch in hand, nothing left voluntarily to chance, the ancient classic courage, absolute regularity; on the other, intuition, divination, military strangeness, superhuman instinct, a flaming glance, an indescribable something that gazes like an eagle and strikes like lightening, a prodigious act in disdainful impetuosity, all the mysteries of a profound soul, association with destiny. (quoted in Strawson 1994: 229–30).

In the world of business organizations, theories of leadership effectiveness based on generic personal attributes and styles tend to work reasonably well when explaining team dynamics at the middle management level. However, they provide less insight into the process of institutional or strategic leadership, where whole organizational populations have to be inspired by leaders with little opportunity for direct personal interaction with most of their followers. It is at this level that the distinction that political scientist James McGregor Burns (1978) made between *transactional* and *transforming* (or inspirational) leadership becomes particularly meaningful. Transactional leadership is the most common type in organizational life. It operates through direct exchanges between leader and follower, and the skills required to be an effective transactional leader are relatively generic in nature (team building

skills, interpersonal skills, political skills etc.), and fairly widely distributed throughout the general population. Transforming leadership is rarer. Where transactional leadership is essentially a bargain, materially and psychologically, in which the bargainers may “have no enduring purpose that holds them together”, beyond meeting each others contingent needs, in transforming leadership, leaders and followers engage in such a way as to “raise one another to higher levels of motivation and morality”, having a “transforming effect” on them both (p.20). Transforming leadership taps into the deeply held values of leader and follower alike and helps to infuse whole organizations with a level of commitment and depth of purpose that goes well beyond the economic and material.

More than three decades of research have led me to the view that inspirational leadership at the institutional level can be more fully understood, not just in terms of leadership persona, but as a dynamic process with three main elements - the context for leadership, the conviction of the leader and the flow of credibility over time and tenure (Leavy 1992, 1996, 2003; Leavy and Wilson 1994).¹ It is a view that looks at leadership as something akin to a performing art, with context scripting the performance, personal values and convictions energizing and propelling it and credibility with the ‘audience’ sustaining it.

Context – Setting the Scene, Outlining the Role, Defining the Opportunity

Leadership impact at the institutional level is always shaped by context. Great leaders do make history, but not always in circumstances of their own choosing (to paraphrase Karl Marx). Studying leadership as a dynamic process in context is a tradition that is much more firmly established in the fields of history and public policy than it is in the business arena, where we still tend to be overly preoccupied with personal traits and behaviours. For example, former US president Richard Nixon (1982: 2), reflecting on the many leaders that he had come into contact with during his own and the Eisenhower presidencies, pointed to the futility of trying to make comparisons out of context:

One of the questions I have most often been asked during my years in public life has been ‘Who is the greatest leader you have known?’ There is no single answer. Each leader belongs to a particular combination of time, place and circumstances; leaders and countries are not interchangeable. Great as Winston Churchill was, it would be difficult to imagine him playing so successfully the role that Konrad Adenauer did in postwar Germany. But neither could Adenauer have rallied Britain in its hour of greatest peril as Churchill did.

¹The present chapter draws quite freely from my earlier work particularly from Leavy, B. (2003), ‘Understanding the triad of great leadership - context, conviction and credibility’, *Strategy & Leadership* 31 (1): 56–60.

Nixon went on to propose that the formula for placing any leader among the greats had three elements, “a great man, a great country and a great issue”. Without the latter two, he believed, potential greatness is likely to remain unrecognized and unfulfilled. For example, Churchill, himself, once said of a highly talented predecessor that he was unfortunate to have lived at a time of ‘great men’ and ‘small events’. It is also probable that if Napoleon had been born thirty years earlier, his career would have peaked before the onset of the French Revolution and we would never have heard of him, and that without the effects of the Great Depression, piling insufferable woes on an already crippled German economy, it is unlikely that the Nazis would have come to power, and Hitler might have been just a footnote in history. In the movies, an Oscar-winning performance usually begins with securing the right role, and when we think about the essence of great leadership, there is a clear parallel.

In the business world, leadership roles are similarly shaped by corporate history and the context of the time. In their book *In their Time: The Greatest Business Leaders of the Twentieth Century*, Harvard academics Anthony Mayo and Nitin Nohria (2005) studied one thousand of the most successful US top executives spanning the last century. They found that in any given decade three types of outstanding executive tended to populate the contemporary business landscape – entrepreneurs, managers and leaders, each effective at different times in different organizational contexts.

The great “entrepreneurs” were “uniquely skilled at sensing emerging opportunities or the potential of nascent technologies and through perseverance and determination built successful new enterprises.” Among the exemplars were Henry Ford, Ray Kroc of McDonalds and Bill Gates of Microsoft. The great “managers” on the other hand tended to derive their “personal and professional value less from creation than expansion,” and were typically “extremely adept at leveraging scale and scope, aligning resources and maximizing market potential.” Among the best over the years were Alfred Sloan of General Motors and Robert Woodruff of Coca Cola. The great “leaders” were those “who confronted change and identified latent potential in businesses that others had considered stagnant, mature, moribund or in decline,” and included such legends as William Allen of Boeing and Lou Gerstner of IBM. Rare was the top executive who could excel across all three quite different leadership contexts and challenges.

The leader for all contexts and challenges is rare in any domain. For example, great as he was, while Churchill was very effective in dealing with the threat of Hitler and Nazism, he was much less effective in dealing with Gandhi and the struggle for Indian independence. For Ron Heifetz of the Harvard Kennedy School of Government the most effective kind of leadership often depends on whether the context is a business-as-usual one or a distinctive break from the past, in the face of which an institution’s customary solutions and ways of working are no longer up to the task and where fundamental, usually quite painful, adaptation is urgently needed (Heifetz 1994; Heifetz et al. 2009).

So, for example, in organizations in crisis leaders typically come under increasing pressure to provide a “solution” that will relieve the anxiety and distress of their

followers. However, when the challenge is primarily an adaptive one, where behavior and culture have to change to ensure survival, only the people themselves can ultimately provide the solution, and the job of the leader is to help them adapt, often against their will in the early stages of the process. Unlike authoritative leadership, adaptive leadership “is not about meeting or exceeding” the expectations of followers but about “challenging some of those expectations” and harnessing the current sense of crisis productively. Transforming a badly misaligned organization usually requires people to absorb some degree of discomfort or loss as a necessary stimulus to the search for new solutions in what is essentially a process of social learning. So adaptive leaders need to have the emotional strength and courage to cope with the inevitable pressures involved. They also need to be able to fashion a process that facilitates the organization or community in generating its own fresh options, embedding the learning in the culture and moving on.

Many leaders who have built their careers on excelling in business-as-usual contexts may come up short when the context changes and the primary challenge becomes an adaptive one. When he was elected by a landslide in 1928, Herbert Hoover was seen by many as the most competent public servant in America and as an outstanding Secretary of Commerce in the Coolidge administration. In all likelihood he would have made an excellent business-as-usual” president, but he lacked the temperament, cognitive flexibility and political acumen needed to deal with the adaptive leadership challenge posed by the onset of the Great Depression, leadership qualities with which his successor, Franklin Delano Roosevelt was much more generously endowed.

Conviction – Interpreting the Script and Driving the Performance

Leadership roles are rarely so tightly scripted by time and circumstance that they leave little room for any given incumbent to make a difference. Mary Robinson’s inspirational performance as President of Ireland in the 1990s, constitutionally a very circumscribed position, is a case in point. Another, compelling example is that of Nelson Mandela who continued to be such an inspiration to his followers and their cause even during his long years of incarceration. At the same time, having an opportunity to make an impact is not the same as making one. Even in the most enabling of contexts, where the ‘tide in the affairs of men’ is ready to be ‘taken at the flood’, individual leaders must still have the talent to make the most of their opportunities and the conviction to rise to the defining challenges of their era.

A classic example is Pope John XXIII. As Howard Gardner (1995:166) writes in *Leading Minds*, “Elected only on the twelfth ballot, and already seventy-seven years of age, Angelo Giuseppe Roncalli was an improbable pope”. He certainly did not foresee the papacy as his destiny. Yet, he brought to the role a level of vision and

drive that few could have expected when the opportunity finally came his way. Three years into his papacy he reflected:

At seventy-seven years of age, everyone was convinced that I would be a provisional and transitional Pope. Yet here I am already on the eve of the fourth year of my pontificate, with an immense programme of work in front of me to be carried out before the eyes of the whole world, which is watching and waiting. As for myself, I feel like St. Martin, who 'neither feared to die, nor refused to live'.

What was it that had made Pope John so ready for a role that he had not anticipated? To understand this fully would take more than a chapter in itself, but suffice it to note that context not only shapes the opportunity for leadership, it also shapes the formation of leaders, their ideas, convictions and aspirations. Pope John, like most great leaders, was a man of his time and a man for his time, and when destiny called, he was ready to meet it. On his way up the Church hierarchy, Angelo Roncalli proved himself to be neither a radical, nor an "organization man". He was a successful insider who never lost his individuality. For example, early in his career, he had a defining 'run-in' with the Curia over the interest that his diocese had shown in the 'modernist' ideas of church historian, Louis Duchesne. Roncalli neither reacted nor buckled under, but rather arrived at the personal conviction that "I can work in my own style, that is the style of a Church, that is both teacher of all and always modern according to the demands of the times and the places". As a potential future leader he was already finding his own distinctive 'voice'. Moreover, in his personal development as a priest, he applied himself as diligently to his 'apprenticeship in spirituality' and 'the science of the saints', as any true professional or artist in any field dedicates himself to personal mastery and the mastery of his calling. So as a future spiritual leader, he had paid his dues. As a future institutional leader, he had also paid his dues, writing many lengthy pastorals during his time as bishop, "which in retrospect can be seen as preparation for the encyclicals that he would issue as pope", *Mater et Magistra* and *Pacem in Terris*. Over a period of several decades he had also researched deeply into the religious renewal that followed the Council of Trent, which helped to infuse his vision and embolden his spirit for his great Vatican II enterprise.

In the world of business, like those of Ecclesia, politics or the military, imagination and drive are more likely to distinguish outstanding performance at the institutional level than professional expertise alone. Yet many of the ways in which we try to categorise the energy and enterprise of great CEOs remain too generic, and fail to uncover the deeper wellsprings of inspirational leadership, which are always in themselves context specific.

We can see this illustrated in the case of Dr. Tom Walsh, the inspirational founding director of An Foras Taluntais (the Irish agricultural research institute), known to all of his staff at the time simply as 'the Doc' (Leavy 1992; Leavy and Wilson 1994). The deep-rooted passions that drove the Doc, the convictions that helped him raise the sights of his young scientists and inspire them, particularly during the formative phase of the institute's development in the early 1960s, were his nationalism and his unshakeable belief in the power of science to solve the problems of Irish

agriculture. These were the contextual factors that helped him link his leadership to a higher purpose, and enlist his eager young scientists to the cause. The Doc was too young to have seen active service during the Irish struggle for independence, but he was brought up in a household steeped in the republican tradition and deeply immersed in the great historical events that surrounded his early upbringing. He came to see it as the patriotic duty of his generation of Irish leaders to help secure the country's economic independence, where the previous generation had fought for its political freedom, and he was convinced that the revival of Irish agriculture was the key to this ambition. For him, 'Ireland's mine' was 'on the top of the land'.

Edmund Wilson once observed "the poetry of Lincoln has not all been put into his writings...He created himself as a poetic figure, and he thus imposed himself on the nation" (quoted in John Gardner 1990: 29). For psychologist Howard Gardner, the essence of inspirational leadership lies in this ability to create and act out compelling stories, particularly stories of collective identity, which appeal to both reason and emotion. The ability not only to communicate an elevating vision but also to embody it was perhaps the singular aspect of Pope John XXIII's leadership, a vision that combined the pastoral and the institutional in a way that few of his predecessors had been able to do. As Gardner (1995:176) explained:

In few other individuals were the means and the messages more closely and more convincingly intertwined than in the person of Pope John. To the members of his church, Pope John decried bureaucratic intrigue among those at the top of the authority structure and called for a return to the simple teachings of Christ. The church had to go back to its roots, which acknowledged the essential worth of all human beings. Within the church, there were not to be privileged groups or orders; as he put it, the pope's love was not to be any greater for Italy than for the Philippines. Pope John emphasized the story that he had been creating over many decades. It was possible, the pope believed, to be both traditional and modern.

If vision devoid of context is often little more than fantasy and wishful thinking, communication without embodiment is often little more than image and spin. Ronald Reagan was widely acknowledged by political friends and foes alike as "the great communicator", laying the emphasis on his unique mass media skills, but Reagan himself preferred to be known as "the communicator of great things", deflecting the attention onto his message. The hallmark of Reagan's leadership was values first, strategy second. As David Gergen (2001: 223-5), his communications chief, later reflected: "America has always been a creed as well as a place", and Reagan "brought that creed out of mothballs" and "made it the centerpiece of his strategy". Unlike his predecessor, Jimmy Carter, who had chided Americans about their growing malaise, Reagan did not lecture his countrymen but rather invited them to live in a more positive way. "He was telling them fundamental truths about themselves and the country that might otherwise be lost", and that's why the people responded to him. They also responded to him because of what they could read into him as well as what they were hearing from him. Gergen also captures this essential insight well as follows:

Speeches take place within a context, never in a vacuum. Listeners bring to the occasion not only their dreams and aspirations but a range of questions about the speaker. Who is he down deep? What does he stand for? Does he speak with authority? Does he care about

people like me? Can I place my faith and trust in him? Who the speaker is speaks as loudly as anything he does (p.215).

Traditionally, the world of business leadership has tended to emphasize numbers before narrative and facts before values, but this is rapidly changing. More and more, corporate leaders are coming to recognize that while facts and numbers can persuade, they rarely inspire the way that stories do. As Robert McKee (1997: 12), one of Hollywood's leading screen writing coaches, explains: "Our appetite for story is a reflection of the profound human need to grasp the patterns of living – not merely as an intellectual exercise, but within a very personal, emotional experience". Great enterprises, like Wal-Mart, are usually built on very potent founding stories, embodied in larger-than-life characters like Sam Walton. Talented inheritors like David Glass, Walton's successor, keep the spirit alive and maintain its momentum. In their turn, great revitalisers reinterpret a shared legacy and make it relevant to new and formidable challenges. For example, in the aftermath of the 9/11 terrorist attacks, the world watched mayor Rudolph Giuliani brilliantly rediscover the spirit and resilience of the "New Yorker" and articulate it in a new and compelling way that helped to rally the city at a time of great uncertainty and distress.

Great companies love their history, and are resilient in adversity. One the most remarkable business turnarounds in the last forty years has been the revival of Harley Davidson, the iconic motorcycle company. Harley Davidson came very close to going under in the early 1980s. It was rescued through a management buy-out by a leadership with a genuine passion for the company's history and what it stands for – individuality, freedom, and a little of the 'wild' side of what it means to be human. Few companies have ever managed to forge such strong identification among their major stakeholders, including management, employees and customers alike. The leadership at Harley Davidson understands better than most that it is a company's unique history that gives it an identity and a 'personality' that people can relate to, much more than any particular bundle of financial or material assets. In its 2002 annual report, the company described the Harley Davidson phenomenon as follows:

Ours is quite a story. It's a real-life saga of perseverance, ingenuity and pride. A chronicle of pivotal decisions that turned our backyard enterprise into one of world's most recognized and admired companies. And a legacy of extraordinary people and innovative products that determined a history of success – and a future full of promise. (Harley Davidson Annual Report 2002: 4).

Credibility – Pacing the Action, Holding the Audience

The third element in this perspective is credibility. All great leaders recognize credibility as the dynamic currency of leadership, yet this rarely figures prominently in traditional theories, particularly within the business literature. Any theory of institutional leadership has to concern itself with how credibility is created and destroyed over time. In the first place, a focus on credibility helps us to recognize our natural

tendency to romanticize our leaders and exaggerate the credit that we give to them for the things that happen, both good and bad.

It also invites us to think about the relationship between leadership style and substance in a different way. Those who like to argue over whether the impact of a particular leader, such as John F. Kennedy, was more style than substance, often miss a key truth. Veteran Washington correspondent the late Helen Thomas (2000: 298) considered John F. Kennedy her favourite among the many presidents that she had covered over a long career because “he understood the past”, “cared about the future” and “brought a new spirit to the country”. Style, of course, was a major part of the Kennedy aura, but what the ‘Camelot’ presidency illustrated most perhaps was how style and substance can work together to be truly transforming. In one of his many insightful essays, Isaiah Berlin (1998) brings us back a little further to the presidency of Franklin Delano Roosevelt, and explains why, in his view, FDR was the greatest leader of democracy in the twentieth century. The style and poise of Franklin Delano Roosevelt, and the credibility that he managed to generate and maintain with freedom-loving people within and beyond the United States, at a very dangerous time for Western values and the future of liberal democracy, was a major factor in Berlin’s assessment of his effectiveness:

The most insistent propaganda in those days declared that humanitarianism and liberalism and democratic forces were played out, and that the choice now lay between two bleak extremes, Communism and Fascism – the red and the black. To those who were not carried away by this patter the only light that was left in the darkness was the administration of Roosevelt and the New Deal in the United States. At a time of weakness and mounting despair in the democratic world Roosevelt radiated confidence and strength (p. 629).

The ebb and flow of credibility also depends upon performance in the arena, and leaders in the business world and other domains are continually trading in this currency throughout their tenures at the top. The traditional focus within the leadership literature on personal styles and attributes tends to make us too preoccupied with how leadership capacity differs from person to person. However, it is just as important to understand how it varies in any given individual over time. Too much credibility can be as harmful as too little. As credibility grows, the line between confidence and hubris often becomes very thin, as Jack Welch learned several times during his career as CEO. The problem becomes particularly acute when senior executives begin to act as acolytes, an ominous sign that credibility has shifted to credulousness. In recognition of this danger, former Honda CEO, Kiyoshi Kawashima decided to step down early when he found that his most senior people had taken to agreeing with him much too often. Over the course of commercial history, countless others might have been wiser if they had followed this example.

At the other end of the spectrum, credibility can be lost in trying to move too quickly in advance of key constituencies. Jacques Nasser’s failed bid to reinvent Ford Motors as a consumer services company in the late 1990s is a classic example. At the time of his appointment as CEO, Nasser was widely seen as the best in the business, yet, “somehow during the course of his tenure he managed to create a lack of trust among virtually every constituency”, as one of his board members later recalled in a *Financial Times* feature article (Burt 2001). Other leaders lose their

effectiveness because their spirits get tired and their stories get old. Even where great leaders manage to remain strong in body and spirit over lengthy tenures, few are able to reinvent themselves and the stories when the original version no longer excites or emboldens their would-be followers. Margaret Thatcher still felt like she could go ‘on and on’ at the time that her political career ended in tears and she failed to recognize that her story had run its course. In contrast, Jack Welch of General Electric showed that he recognized the danger when he told a forum of Asian business leaders that he was “not retiring because I am old and tired” but because “an organization has had 20 years of me” and has to “renew itself” (quoted in Colvin 1999: 97).

Character, Not Just Competence

If the dynamic currency of leadership is credibility, its underpinnings are rooted in both competence and character (Leavy 2016a). “In business, trust is the coin of the realm,” and “authenticity” is “the gold standard,” according to Bill George, Professor of Management Practice at Harvard Business School and former CEO of Medtronic (George 2003, 2007, 2015). Authenticity, as George conceives it, has two very powerful and interrelated connotations, the true versus the false, and the original versus the replica. So the route to becoming a more authentic leader capable of inspiring trust in your character as well as your competence has two interrelated goals, how do you uncover your deepest values and discover who you really are at your core, and how and where do you find your own leadership voice and passion to lead?

In his best-selling book *True North: Discover Your Own Authentic Leadership* (2007), and in his study’s later extension *Discover Your Own True North* (2015), George and his team set out to identify an extensive range of leaders widely recognized for their authenticity as well as their effectiveness and learn what makes them distinctive. The most “striking commonality” they found amongst the leaders studied was “the way their life stories influenced their leadership,” and infused them with a higher ambition, beyond material success and professional recognition, to make a real difference in people’s lives.

One of the most insightful examples is that of Howard Shultz of Starbucks, who explained that the “reservoir of all my life experiences shaped me as a person and as a leader.” Shultz grew up in the Bayview Housing Projects in Brooklyn, a most unlikely background for a future Fortune 500 CEO, and as a youth he suffered discrimination because of his “poor kid” status, finding respect only on the sports field, in his academic studies and in like activities where talent and commitment counted most. One of his most formative experiences, which he says continues to shape him and his leadership, was when he was only seven years old and his father broke his ankle and lost his low-paid job. For several months, the Schultz family could not pay the bills. The stresses and insecurities associated with this episode are “directly

linked” to the culture and values of Starbucks. “I wanted to build the kind of company my father never had a chance to work for, where you would be valued and respected no matter where you came from, the colour of your skin, or your level of education.”

One very tangible reflection of this is the sector-leading health benefits that Starbucks offers its employees: “We wanted to build a company that linked shareholder value to the cultural values we create for our people.” Schultz’s commitment to this value was tested when the company’s growth stalled in 2007 at the onset of the global financial crisis. When the share price plunged from \$35 to \$18 one of his major institutional investors rang him to suggest that he cut back on the \$300m a year spend on health benefits and, under the circumstances, “no one will criticize you.” Schultz’s immediate response was: “I could cut \$300 million out of a lot of things but do you want to kill the company, and kill the trust in what this company stands for? If that’s what you want us to do you should sell your stock.”

In his study *Return on Character* organizational psychologist Fred Kiel (2015) found that “high character” leaders can be shown to deliver significantly better business performance (up to five times better) than their more self-focused counterparts and typically fostered much higher levels of employee engagement. From a review of the literature Kiel identified four universal dimensions of character for his study, “two of the head,” integrity and responsibility, and “two of the heart,” forgiveness and compassion, along with the behaviours that typically express them in the workplace. As Kiel explains, behaviours that demonstrate integrity, such as telling the truth and standing up for what is right, help to generate trust, those that demonstrate responsibility, such as owning one’s personal choices and mistakes, tend to be inspiring, forgiveness and keeping the primary focus on where to encourage rather than blame helps to foster innovation, and demonstrating compassion and empathy are both primary elements of empowerment. Kiel also found that much of what constitutes character in the workplace context is a matter of habit. With sufficient dedication to self-development, good leadership character habits can be strengthened over time and bad ones eliminated.

Educating for Leadership at the Institutional Level

The kind of contextual perspective on leadership presented here has important implications for the kind of education that should serve top leaders best in their ongoing development. In most domains, the world of business included, there is no role that fully prepares someone for leadership at the top of an institution. Most CEOs pick up their most valuable professional skills and knowledge on their way up through the ranks, and more of the same is rarely the developmental priority at the highest level.

Perspective Not Prescription

What leaders are looking for most at this level is perspective, not prescription. Yet, within the business literature, we continue to bombard them with advice on leadership attributes, styles and behaviours and wonder why so many take no notice. If effectiveness depends on the ability to create and embody a compelling story that will reach into the hearts and minds of every stakeholder, then today's CEOs need to learn how to uncover the deeper values that they share with their followers and how to articulate them in fresh and compelling ways that link their company's future with its history and its place in the broader scheme of things. If too many of them show little capacity for visionary leadership, it is not because they lack techniques for lateral or creative thinking. More likely it is because their interests are too narrow and their deeper values remain untapped.

The commercial environment of the 1980s and 1990s presented a very clear performance priority for business – build shareholder value. The business leaders of today are facing into a very different world, with new priorities and new expectations that will require them to go well beyond the confines of their professional training in educating themselves more fully for their roles.

Understanding the New Priorities and Expectations

In *The Politics of Fortune*, Jeffrey Garten (2002), dean of Yale School of Management, identified the emergent priorities for business leaders in the post 9/11 and post Enron era, among them restoring integrity to the financial markets, sustaining free trade, reducing global poverty, and expanding corporate citizenship. In the aftermath of the 2007 financial crisis and since, these challenges have become, if anything, even more pressing. All of them require the business leaders of today to broaden and deepen their engagement with their wider society, politically and socially as well as commercially. For example, restoring integrity to the markets must be a priority if business leaders are to regain their reputation and standing with the wider community, sustaining free trade, currently under threat, can only be done with business and government working in partnership, reducing global poverty will be key not only to creating the growth markets of tomorrow, in places such as South East Asia and Africa, but also to earning the legitimacy to participate in them, and expanding corporate citizenship will be key to securing and retaining the commitment and loyalty of all of the key stakeholders, not just shareholders but also customers, employees, suppliers, and the local communities within which the firm operates. The strategic assets in more and more businesses today are 'knowledge' workers, and these will not be content to devote their talent, passion and creativity only to the service of the narrow interests of shareholders.

"Is genuine progress still possible? Is development sustainable? Or is one strand of progress – industrialization – now doing such damage to the environment that the

next generation won't have a world worth living in?" These are the questions that Lord John Browne, the former chairman of BP, posed in a BBC Reith lecture at the turn of the millennium (see also Leavy 2016b). According to Peter Senge and Goran Carsted (2001: 26), leaders in the business world and related domains are going to have to learn to work within a fusion of three world views, rationalism, naturalism and humanism, if we are to make real progress in moving towards a post-industrial model based on sustainable development:

Rationalism, the belief in reason, has dominated society throughout modern times. It remains the dominant perspective in business and education. Yet, it has limits. It cannot explain the passion that motivates entrepreneurs committed to a new product idea nor the imagination of scientists testing an intuition. Nor does it explain why a quiet walk on the beach or a hike in the mountains may inspire both. These can only be understood by seeing how naturalism, humanism and rationalism infuse into one another. Naturalism arises from our innate sense of being part of nature. Humanism arises from the rich interior life that connects reason, emotion and awareness – and ultimately allows us to connect with one another. Epochs in human history that have nurtured all three have stood out as golden ages.

As Jeffrey Garten (2002) argues in *The Politics of Fortune*, the contemporary system for educating business leaders still does not go far enough to train CEOs to be leaders in society, and to meet the challenges of this new agenda. In these dynamic and uncertain times, it seems timely to look again at the role that the humanities might play in the education of business leaders, particularly at the institutional level, where a humanist perspective is now most needed. We might all now benefit from recognising anew what many business leaders and academics of the post-war era believed over half a century ago, that an immersion in the humanities can help an executive become not only a wiser, broader person, but also a wiser, broader businessperson.

Leadership as a Worthy Calling and Potential Process of Moral Education

The distinguishing mark of the liberal arts is their emphasis on integration and wholeness, and this is particularly relevant at the highest levels of leadership where strategic vision is more a process of synthesis than analysis. Professional education in the sciences and commerce tend to be organised primarily around the rational search for solutions to well-defined problems. However, top business leaders today are increasingly required to make judgements on questions of values and ethics, not just technical or commercial challenges, and this is where a liberal arts education comes into its own.

An earlier generation of business leaders believed that management, like the arts and education, should serve a higher purpose than just the needs of business. It now seems timely to return to this ideal if our institutional leaders hope to be able to inspire their people and help make working lives more meaningful in this post-modern world. As Senge and Carsted (2001: 34) have put it: "If enterprises are not

committed to anything beyond making money, why should managers be surprised that workers make transactional commitments?" Leaders cannot hope to engage, inspire and empower in any transforming way without being willing to deepen their knowledge of who they really are and what they truly value, and leadership at the institutional level provides a unique opportunity for such reflective self-knowledge and personal development, for those open, committed and courageous enough to take advantage of it. In reflecting on his own experience as an institutional leader at the highest level, particularly on his role and responsibilities in relation to the Civil Rights issue, Lyndon Johnson, captured this better than most when he said:

Nothing makes a man come to grips more directly with his conscience than the Presidency. Sitting in that chair involves making decisions that draw out a man's fundamental commitments. The burden of his responsibility literally opens up his soul. No longer can he accept matters as given: no longer can he write off hopes and needs as impossible. In that house of decision, the White House, a man becomes his commitments. He understands who he really is. He learns what he genuinely wants to be. (quoted in Heifetz 1994: 148)

Finally, and relatedly, in *The Good Struggle: Responsible Leadership in an Unforgiving World*, Joseph Badaracco (2013), a professor of business ethics at Harvard Business School, points out that we are living in a world where "markets, rather than religion or government or family or ideology," now seem to be "the most powerful force" directing human affairs. It is a world full of "extraordinary opportunity, complexity, fragility and uncertainty." In trying to lead responsibly in such a world, Badaracco believes that leaders today need to be able to find their own contemporary answers to three enduring, role-defining, questions.

1. ***Am I really grappling with the fundamentals?*** The first responsibility of leaders is "analytical rather than ethical." CEOs who don't strive hard enough to understand the driving forces "shaping the economy and society around them" can easily lead their organisations astray, even if they are "deeply committed to the right values," and markets will move "swiftly and remorselessly" if they fail in this endeavour. The leader's most valuable asset in meeting this challenge is intellectual honesty – the courage and acuity to see the world as it really is.
2. ***Do we have the right core values?*** Leaders must be able to penetrate beyond the "consensus approach" of "vague commitments" to such universal principles as "honesty, integrity, respect for individuals and so forth" to get to the core of what they are prepared to "make good on" when "sacrifice is unavoidable." At its most fundamental, this is about identity, and knowing who you are, both individually and organisationally, more than about cost-benefit calculation.
3. ***Why have I chosen this life of leadership?*** For Badaracco, the most serviceable answer can now be found in classical antiquity's notion of "the Good Struggle." His whole argument, he says, can be summed up in two short statements: In today's dynamic and uncertain world "responsible leadership is commitment, and commitment is struggle."

In future, as Badaracco sees it, more and more aspiring leaders will have to be drawn to the leadership role because of its intrinsic value, since a market-driven world "offers few guarantees and markets are indifferent to the fates of individuals."

Yet, for those willing to “take risks, to sacrifice, and to doggedly pursue some larger, higher aim,” the job of leaders today offers all the satisfactions of the classical “good struggle.” It can be a noble calling that will present them with “a long rigorous challenge that tests their competence and characters fully, gives purpose and intensity to their lives, and helps them to lead the kind of life they really value.”

Summary

This chapter began by highlighting the limitations of trying to understand the secret of exceptional leadership at the institutional level by focusing on the personal attributes, styles and generic skills of the leader alone. Such skills, no matter how highly developed, are an insufficient basis for leadership that seeks to be transforming in impact and moral in influence. Deeper insight can be gained into the nature of inspirational leadership at the institutional level by viewing it as a dynamic process, the outcome of which is shaped by three main elements, context, conviction and credibility. The nature of each was examined in some detail. The chapter concludes by identifying a number of developmental priorities for individuals aspiring to be institutional leaders that are linked to this perspective. What leaders need most at this level, beyond the requirement for the type of well-honed professional skills that helped to get them there in the first place, are a widening of their perspective, a well-developed grasp of the defining priorities for business in society in their particular era, and a capacity for ongoing self-discovery, qualities that some immersion in the liberal arts seems well designed to foster.

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Chapter 8

Responsible Leadership Beyond Managerial Rationality: The Necessity of Reconnecting Ethics and Spirituality



Johan Verstraeten

Abstract This chapter argues that management expertise is a necessary but insufficient condition for leadership, since leadership implies many aspects which transcend the boundaries of management. Indeed vision distinguishes leadership from management. It requires the mobilisation of imagination as a precondition to innovation. Leadership starts with ‘taking oneself seriously. [...] And taking one’s fellow men and women by the hand and leading them back to their own sources.’ The ethics of this sort of leadership is the most underdeveloped aspect of business ethics. In this chapter, I will elucidate its paradoxical nature. The paradox of leadership is, that, on the one hand, it is a condition *sine qua non* for successful business in an era in which the only constant is change. Late modern culture hinders or sometimes even blocks the development of leadership qualities due to the artificial separation between ethics and spirituality. This chapter will clarify some of these cultural obstacles and describe how spirituality can generate the basic conditions for the moral responsibility of leaders.

Keywords Responsible leadership · Ethics · Spirituality · Paradox · Leadership qualities

Most people agree that leaders should be ethical, but few have delved into what this means
(Joanne B. Ciulla)¹

Some aspects of this article are worked out more extensively in Johan Verstraeten, *Leiderschap met hart en ziel. Spiritualiteit als weg naar oorspronkelijkheid*, Tielt, Lannoo, 2003, especially 19–70.

¹Joanna B. Ciulla, ‘The State of Leadership Ethics and the Work that Lies Before Us’, in: *Business Ethics: A European Review*, 14 (2005) 4, 323–335.

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In order to be acknowledged as experts, business ethicists, like other experts in applied ethics, assimilate quite uncritically the discourse of their dialogue partners. Such a particular discourse tends to avoid or to exclude questions and interpretations which are not in accordance with the shared understandings and presuppositions of the discipline. It even sets boundaries with respect to the sort of questions that may or may not be posed. In business ethics the dominant discourse is that of management. This has positive consequences such as greater relevance and adequacy. But it also leads to the exclusion of crucial questions. This is particularly the case with regard to leadership, which requires more than management skills or managerial rationality. Leadership transcends the boundaries of management.

According to the UN Commission on Global Governance, leadership is not an exclusive characteristic either of top-managers in business or of decision makers in politics. It is a quality which is necessary in all domains of life: *"On every level and in every domain of life, in local communities and in international organisations, the world needs a credible and sustainable type of leadership (...) a leadership that looks forward and does not only react, that is inspired, not only functional, that accounts for consequences in the long term and with future generations, leaders who can be trusted and behave like good stewards. The world needs leaders empowered by a vision."*²

Indeed vision distinguishes leadership from management. It requires the mobilisation of imagination as a precondition to innovation. It is based on 'disclosing new worlds of meaning'.³

The boundaries of the manager's radius of action, determined by a given context and given economic goals, are narrower than those of leaders (even when considerations such as CSR or stakeholder-interests are included).⁴ Unlike managers, leaders question the given goals and they are geared towards changing the parameters of the context.

Leadership, moreover, is not only transactional, but also transformative and that requires the capability to motivate people to 'transform their own self-interest into the interest of the group through concern for a broader goal'.⁵

Managers have much 'know how' but they often lack 'know why'. The art of leadership does not consist of acting in accordance with professional codes or business conduct guidelines. It is not so much a matter of 'doing things right' but of making the right choice ('doing the right thing') and of motivating people to go for it.

²A call to action. Summary of *Our Global Neighbourhood. The Report of the Commission on Global Governance*, (Geneva: 1995), 19.

³Manuel Guillén, Thomas F. Gonzales, 'The Ethical Dimension of Managerial Leadership. Two Illustrative Case Studies', in: *Journal of Business Ethics*, 34 (2001) 3–4, 186.

⁴Kenneth Goodpaster has labelled the focus of managers on economic goals and the instrumental rationality related to it as "teleopathy", See Patricia H. Werhane, R. Edward Freeman (eds.), *Blackwell Encyclopedic Dictionary of Business Ethics*, (Oxford: Blackwell, 1998), 627.

⁵Judy B. Rosener, 'Ways women lead', in: *The Leader's Companion: Insights on Leadership Through the Ages*, ed. Thomas E. Wren (New York: The Free Press, 1995), 150.

Doing the right thing requires more than role integrity. It is a matter of courageous personal responsibility and of integral integrity, the sort of integrity that requires a narrative configuration of life and transcends differentiated role behaviour.

Leadership is also more than steering people to external or economic goals, and it is certainly more than encapsulating men and women in mimetic and submissive patterns of behaviour steered by panoptic control mechanisms (mechanisms often hidden behind theories that pretend the opposite). Genuine leaders are aware of the tension between corporate values and personal values, but that does not prevent them from appreciating people who have the courage to be what they are. A leader who takes himself or herself seriously (and this is the opposite of a cynical attitude) does valorise the specific contribution of people who are motivated by their own living sources. According to Etty Hillesum this is “*the work that one can perform on one’s fellow men and women: driving them back time and again to themselves, restraining them in their flight from themselves, taking them by the hand and leading them back to their own sources.*”⁶

This sort of leadership and its underlying conditions is perhaps the most underdeveloped theme in business ethics.

In this chapter I will start from the paradoxical nature of genuine leadership. Paradoxes are important for reflection because as apparent contradictions they deconstruct our familiar insights. The paradox of leadership is, that, on the one hand, it is a condition *sine qua non* for successful business in an era in which the only constant is change, while, on the other hand, it has never been more difficult to develop authentic leadership as a consequence of the fact that our late-modern culture hinders or sometimes even blocks the development of leadership qualities. The main reason is the artificial separation between ethics and spirituality. In my presentation I will clarify some of these cultural obstacles and describe how spirituality can generate the basic conditions for the moral responsibility of leaders.⁷

I know that my approach is vulnerable to critique from the point of view of business ethics, particularly because what I am going to suggest is not so much a matter of ethics, but of the preconditions to ethical behaviour. The problems we are confronted with are so fundamental that we need to elucidate first the very conditions for the possibility of responsible moral behaviour and that cannot be articulated merely in rational terms. Of necessity we will sometimes have recourse to metaphorical and poetical language, or, to put it in the words of William James and Martha Nussbaum, we will have to work “*exploratively and suggestively rather than dogmatically*” and ethical judgment in this regard “*can never be definitive,*

⁶Translated from Etty. *De nagelaten geschriften van Etty Hillesum 1941–1943*, Uitgeverij Balans, Amsterdam, 1991 (3rd revised edition), 418.

⁷For a most lucid synthesis of the contemporary quest for spirituality in business, see: Thierre C. Pauchant, ‘Introduction: Ethical and Spiritual Management Addresses the Need for Meaning in the Workplace’, in Id. (ed.), *Ethics and Spirituality at Work. Hopes and Pitfalls of the Search for Meaning in Organizations* (Westport, Conn./London: Quorum Books, 2002), 1–27.

except in the most abstract and vaguest aspects; and they distance themselves more and more from the old fashioned, sharply defined, so-called 'scientific' form.”⁸

The Diagnosis of the Problem: What Are the Obstacles to Leadership?

There are at least four reasons why leadership has become problematic: the impossibility of interpreting the sphere of work as meaningful, the fragmentation of conscience, the lack of interior life and the manipulation of the soul.

The Impoverishment of Language

When we describe leadership as the capacity to motivate people by way of opening new worlds of meaning and to shape possibilities for the emergence of new insights and practices, the problem becomes immediately clear: the capacity to give meaning to what we do, or our capacity to interpret the world as meaningful, has become weakened by an impoverishment of language.

Human persons are not only economic actors, rational beings or political animals, but also and mainly language animals. We ascribe meaning to what we do and experience through language. There is no experience apart from language and interpretation. The richer our language, the more meaning we find, the more attenuated our language, the more one sided and functional our vocabulary becomes, the less we will be able to experience the world within us and around us as meaningful. Hannah Arendt once referred in this regard to the dominance of stereotyped phrases whereby we try to protect our place in the system, but instead of guaranteeing life in the fullest sense of the term, we ultimately place it under a sort of ‘anaesthesia’. The original and life-giving word is drowning in a sea of bureaucratic, managerial or control-freak words, which no longer do justice to the complexity and richness of human action. Likewise management theories do not offer a solution; on the contrary, they intensify the problem, since the meaning of life and work is often impoverished by a human resources discourse which still represents in some way a mechanistic interpretation of life. We use words and metaphors such as ‘Re-engineering the Corporation’ (the enterprise as engine!), human resources (as if the human person is a material reserve), workforce (why not ‘co-workers’?), down-sizing or rightsizing (instead of laying-off people) not to mention the ubiquitous language of control. This impoverished language has not only invaded business, but

⁸William James, *The Moral Philosopher and Moral Life*, as quoted in Martha Nussbaum, *Wat liefde weet. Emoties en morele oordelen*, (Amsterdam: Boom/Parrèsia, 1998, 129 (We have here retranslated the Dutch translation of *Love's Knowledge* into English).

has colonised every aspect of life, e.g., academic life. Its meaning is impoverished by a utility oriented economic language that equates universities with business organisations where managers decide, students become clients and scholars compete for research funds in a highly competitive market. Already more than fifty years ago, Josef Pieper warned against it, by articulating it in terms of a *proletarianisation of the intellectual*.⁹ The academic is no longer a thinker with a rich culture and literary formation, who both takes the time (and the leisure!) to think beyond the utility of his or her research and tries to raise fundamental questions. Instead he or she has become a knowledge worker who has to perform useful labour; a worker who has to meet his/her production quotas as determined by bureaucracy or economic goals. The intrinsic significance of intellectual labour, the semantic richness of one's ideas no longer has a role to play and is often subjected to extrinsic criteria such as observable and verifiable 'output' and 'impact', quantity of publications or, preferably, the acquisition of large amounts of research funding. The entire language game betrays the fact that the economic utility of what we do exhausts its meaning.

The diagnosis of Pieper must not be limited merely to academic work, since the problem of the narrowing of our hermeneutical horizon is extended to all spheres of life and it is, moreover, not new. It was already suggested in a metaphorical way in the allegory of the cave dwellers in Plato's *Politeia*. These prisoners themselves have no other option than to observe the shadows and they believe that their very limited perception of reality coincides with reality as such. The cave of Plato symbolises the limited hermeneutical horizon in which managers and business ethicists operate. Like the dwellers in the cave they are not capable of seeing that there is more beyond the misleading virtual reality projected on the wall. Plato even suggests that the prisoners would put to death somebody who leaves the cavern and sees reality in a new and richer light. They are obstinate to the safety of their limited interpretations. They refuse to be interrupted or disturbed by a perspective different from that of the cave and its illusions. They even refuse to acknowledge the possibility of another perspective. When people stick to their narrow interpretation of reality, leadership becomes impossible.

A Second Inhibitory Factor with Respect to Leadership Is the So-Called Disconnection Syndrome

Disconnection is not only an external phenomenon. It is also innate to human persons. MacIntyre once compared the post-modern person to an actor who is obliged to play a variety of roles, who dashes from one stage to the other, performing each time in a different drama, unable to see the connection between the one and the other.

⁹ Joseph Pieper, *Leisure. The Basis of Culture*, (South Bend: St. Augustine's Press, 1998), 34.

There is no cohesion between all these different scenes and each one is open to experimentation. People are often unwilling or unable to opt for the integration of roles which, in spite of its limiting effects, nevertheless calls a degree of cohesion into existence.

An aspect of the problem is the fragmentation of conscience. When people stick to their differentiated professional role morality, when they try to do things right, they often fail to do the right thing. An example of such disconnected 'role morality' can be found in the story of IBM engineers and technicians who assisted in the design and maintenance of 'nothing more than an extremely innovative punch card system', likewise those who worked in the service of the Nazis, but who argued that they bore no responsibility for the optimisation of the registration and systematic killing of the Jews. This albeit extreme example points to a very real problem, namely the neglect of the difference between role integrity (living according to the specific responsibilities of a professional role) and integral integrity.¹⁰ In the latter instance one accounts for the global context and the broader consequences of one's professional choices, in so doing one acquires the capacity to integrate the variety of role responsibilities in a coherent life, but this presupposes that a person is capable of a narrative configuration of life as a whole. The manager, who is not capable of acting beyond role integrity, will never be a leader. However, the problem is that the narrative configuration of life as a necessary condition for leadership has become utterly problematic since the "self" as subject of this narrative configuration is in crisis, as I will point out in the next point.

Alienation from the Deeper Self

We are indeed confronted with one of the paradoxes of the history of the self after modernity: in spite of the promise (and pretence) of greater autonomy, the human person has become more and more alienated from his or her deepest interior self.

Louis Dupré has shown that pre-modern men and women, like Augustine in his *Confessions*, had the capacity to enter into the most profound layers of interiority as a space in which to encounter God.

The modern self, however, has become an 'empty' subject, only able to enter into contact with itself by mediation (and thus no longer in the 'immediate' sense).

The modern self (and in equal measure the post-modern self) no longer enjoys a point of anchor in himself or herself. It has been reduced to objective achievements, to property and conquest.¹¹ The human person who no longer maintains a direct bond with his or her deepest and most essential core has become an empty subject.

¹⁰Mike W. Martin, *Meaningful Work. Rethinking Professional Ethics*, (Oxford/New York: Oxford University Press, 2000), 203.

¹¹Louis Dupré, Edith Cardoen, *Terugkeer naar de innerlijkheid* (Antwerpen/Amsterdam: De Nederlandsche Boekhandel, 1981, 21 (This book is a revised translation of Louis Dupré, *Transcendent Selfhood*, Seabury Press, 1976).

Instead of courageously confronting the emptiness, however, we endeavour to fill it as much as we can with work and activity for fear of nothingness. And filling emptiness with activity, easily leads to workaholism. Diane Fassel, who has followed the problem at close quarters for some time, describes her encounters with people everywhere as encounters with people 'who are killing themselves with work, are constantly busy, always on the move, overburdened with worries, trying to rescue themselves. The addiction to work is a modern epidemic that is spreading at lightning speed.'¹² In contrast to other addictions, workaholism is socially accepted and often establishes the illusion of success. On closer inspection, however, it becomes apparent that it does little more than reinforce our alienation from the deeper self.

Leadership, however, requires taking distance and enjoying leisure. The capacity to enjoy free time is one of the most important strengths of the human soul. It allows the human person to connect once again with the sources of life. It is not the person who is able to enjoy his or her free time who suffers from the emptiness and dispiritedness of apathy or *acedia* but rather the hyperactive individual who has internalised the ethos of "I work therefore I am". The latter refuses to become himself or herself and abandons himself or herself to the inertia that 'refuses to undertake new things' (Thomas Aquinas). This refusal is the opposite of leadership.

A Fourth and Last Obstacle to Leadership Is the Manipulation of the Soul

In the past, manipulation on the shop floor tended to be limited to physical manipulation, whereby the capacity to work was measured in an effort to make labour as productive as possible. Taylor's labour analysis and Chaplin's matchless symbolisation of the instrumentalization of the body in the film *Modern Times* are symptomatic of such an attitude. Today, however, we are not so much confronted with the body as the object of manipulation in service of economical goals but rather the manipulation of the soul, to which even senior management is subjected. Nicole Aubert even goes so far as to speak of the 'manipulation of the heart'.

Human resource policies are concerned in the first instance with the psychical and even spiritual dimensions of individuals. An endeavour is made to manipulate their desires, fears and imagination. In a culture in which established frames of meaning and 'plausibility structures' have all but disappeared, in which fragmentation is both exterior and interior, people still search for a firm footing, self development and confirmation. In order to fulfil these desires, however, men and women have become more and more dependent on the confirmation and slap on the back they receive in the work arena. As a consequence they are likely to attune their own behaviour to what they think they have to do in order to satisfy the other, the company, the professional organisation for which they work. They develop a mimetic or

¹² Diane Fassel, *Working Ourselves to Death*, (San Francisco: Harper, 1990), 2.

imitative life and become all the more dependent on the persons and institutions that deal out the confirming back slaps. The latter is doled out in the form of promotion or an increase in salary and is paid for by harder work. To satisfy their need for confirmation, many are prepared to do virtually anything, even sacrifice quality of life and good health. They ultimately find themselves drawn into a vicious circle that reinforces the relationship of dependence on the company, limits their freedom to negotiate and impoverishes them existentially.

According to Nicole Aubert, companies (and professional organisations) not only try to make use of the labour and intelligence of their employees and managers but also their 'being'. The endeavour to persuade others to place 'being in the service of production' simultaneously provides the members of such organisations with the illusion that the narcissistic projections with which they sought to escape existential emptiness can be realised in the discovery of a false transcendence in their professional environment or in the company for which they work.

Disguised as the pursuit of 'excellence', such submission to the organisation bears witness to an alienating 'thirst for the absolute', as Louis Aragon once described in his *Aurélien*: a dreadful sickness, a consuming passion 'that "devours" those who submit themselves to it and imprisons those who succumb to it.'¹³ A striking combination can be detected in this process, a combination of absolute dependence and the endeavour to elevate the self to heroic proportions. By submitting oneself to a company or a professional organisation one acquires the illusion that one is a hero, but instead of finding oneself in the process, one is condemned to cherish nothing more than a false image. The absolute is no longer present in this context in authentic transcendence, but rather in the insistence on total self-realisation in which one is likely to drown with just as much pleasure as Narcissus did in his own reflection.

This narcissism is further reinforced by the company or organisation via a system of 'creed, code and cult', the company credo, its moral code and the rites it employs to underline its values. Such companies and organisations behave like pseudo-religions and in some instances do not even hesitate to manipulate the desire for immortality. On other occasions, they behave like secularised Churches that offer a sort of ersatz immortality. The individual who longs for eternity (can be both the employer and the client!) are given the illusion that they belong to a sort of 'mystical' community that transcends the limits of their mortality. Burkhard Sievers even goes so far as to argue:

In former times, the Church was the predominant organisational representation of our collective western belief in immortality [and this was expressed, to some extent, in the ecclesial hierarchy of the living and the dead as well as in various forms of worship. Nowadays, our companies have, to a degree, taken over the spiritual and cultural function of confirming belief in immortality.¹⁴

¹³ Nicole Aubert, 'L'entreprise comme instance de création existentielle: aspirations et désillusions', in Thierry C. Pauchant, *La quête du sens. Gérer nos organisations pour la santé des personnes, de nos sociétés et de la nature*, (Montréal : Ed. d'Organisation, 1996), 116.

¹⁴ Burkhard SIEFERS, 'Participation as Collusive Quarrel', *Ethical Perspectives* 3 (1996) 3, 133.

Such quasi-religious pretensions are also evident in the titles of some best-sellers for managers such as *'Built to Last'*¹⁵ and *'Corporate Cults. The Insidious Lure of the All-Consuming Organization.'*¹⁶

According to Aubert, companies and professional environments often function under the illusion that they are divine and all-powerful institutions and that they are at liberty to ignore time and death. At the same time, they behave like 'all-encompassing, all-devouring mothers' and like 'benevolent and nourishing mothers, oriented towards the possession of the totality of the individual's psychic space, who cannot imagine any possible alternative pattern of behaviour.'¹⁷ This ultimately leads to the destruction of the person and to existential meaninglessness. Instead of being a source of life, therefore, human labour becomes a source of emptiness and death.

I fear that some forms of company spirituality serve to do nothing more than reinforce the endeavour to instrumentalize the human heart and soul.

The relationship of dependence established in the work environment emerges in particular in crisis situations, when companies or organisations decide to restructure or 'downsize' (a technique referred to by some as 'corporate anorexia nervosa' whereby an exaggerated number of employees is sacked in order to cut costs and thereby increase profit margins and please shareholders). When people are bound to their company because of a relationship of dependence, being sacked does not only result in loss of employment and income, but also the loss of an illusory all-embracing system of meaning. Such individuals are inclined to fall into an existential black hole that increases in size in accordance with the depth of their binding commitment to the company.¹⁸ For some this can lead to complete despair. The suicide of an airline pilot after the bankruptcy of the Belgian national airline Sabena is a textbook example. Such employees have given everything to the company, even their soul, and the company in turn has taken everything. As Dilbert cynically states: 'We've squeezed your benefits. We have taken all your power and soul. We've taken the best years of your life. We made you sit in a cardboard box. We drove you crazy. And now you can't stay.'

Even those who 'survive' such crises are inclined to depressive episodes, having come to realise in the process that the company had become an 'idol', an empty shell, which was only after their labour. They tend, in addition, to develop a cynical approach to the ethics and spirituality of the company and try to survive by working harder.

¹⁵We refer here to the title of a book written by James C. Collins, Jerry I Porras, *Built to Last. Successful Habits of Visionary Companies*, (New York: HarperCollins, 1994).

¹⁶Dave Arnott, *The Insidious Lure of the All-Consuming Organisation*, (New York: American Management Association, 2000).

¹⁷E. Enriquez as quoted by Nicole Aubert, art. cit, 199–120.

¹⁸See David M. Noer, *Healing the Wounds. Overcoming the Trauma of Layoffs and Revitalizing Downsized Organisations*, (San Francisco: Jossey Bass, 1993), especially 3–14, 134–155.

Against such a background, the challenge confronting leadership becomes all the more significant: how can people acquire sufficient authentic autonomy to escape from the process of manipulation of the soul?

Solution

As already indicated the solution to the sort of problems mentioned is more than a matter of ethics. It requires the mobilisation of imagination and spirituality, as pre-conditions for innovative thinking and autonomous innovative action, in other terms, as precondition for leadership.

First, with regard to the problem of acting and thinking in a too narrow framework of interpretation, leadership begins with learning ‘to see’ again. It starts with an interruption of the narrow horizon of interpretation in which we are stuck, and with the development of the capacity to interpret reality differently.

This is, in a most interesting way suggested by a report by the UN commission on Global Governance:

The most important change that people can make is to change their way of looking at the world. We can change studies, jobs, neighbourhoods, even countries and continents and still remain much as we always were. But change our fundamental angle of vision and everything changes – our priorities, our values, our judgments, our pursuits.

Again and again, in the history of religion, this total upheaval in the imagination has marked the beginning of a new life... a turning of the heart, a “metanoia” by which men see with new eyes and understand with new minds and turn their energies to new ways of living.¹⁹

In other words, as Marcel Proust wrote: the true voyage of discovery is not to seek out new territory, but to learn to see with new eyes. The key word in this context here is imagination. Without imagination there is no way out of the cavern of illusions. Imagination is mediated by texts which are sufficiently different from the dominant life impoverishing language.

In order to be capable of leadership again members of the business community must learn again to read and meditate on poetical texts, in the Aristotelian sense of the word: texts that stimulate them to think differently, texts which interrupt their fixed ideas, texts that disclose new and other ways of being and thinking. Such texts are not only the novels and poems, but also the great texts of the spiritual traditions such as the Bible, the Koran and the Bhagavad-Gita and so on. All these texts have in common the ability to give people access to a language and a horizon of interpretation that is different from the narrow horizon in which they live.

Such texts can generate semantic innovation because of their metaphorical language.

¹⁹This is a quotation from Barbara Ward in *Our Global Neighbourhood. The Report of the Commission on Global Governance*, (Oxford: Oxford University Press, 1995), 47.

The metaphors create a tension between everyday life and a new world of meaning opened by the metaphor. They also enable us to look beyond the scope of problem solving into new possible worlds of meaning. And the living metaphors challenge the dominant root-metaphors which are often latent or hidden in objective argument or theory.

A shift of root metaphors implies a change in our perception of life and world. For example, in neoclassical economic theory the invisible hand is one of the dominant root metaphors, which presupposes a world constituted by monadic individuals and a mechanistic worldview. It is, as Charles Handy suggested, challenged by the root metaphor of the invisible handshake, which refers to a world in which people are interconnected with bonds of solidarity.

Another example of a metaphor is the great inquisitor of Dostojevski. His leadership style is that of control and distrust, while his tacit opponent represents a world of freedom and trust.

Without initiation into the world of stories, without the creative tension created by the world of metaphors, thinking in other perspectives than that of the existing frameworks of interpretation is impossible. Innovate leadership starts with the acceptance of a conflict of interpretations, of a clash of interpretative horizons and that requires initiation into literature and the great texts of spirituality. This is at least as important as initiation into ethics.

Yet, the hermeneutical *metanoia* I just described is only the beginning.

Initiation into poetic texts is one way; it ought to be supplemented with an initiation into the world of silence and meditation, the world beyond words.

Beyond Words: Silence and Meditation

A characteristic feature of classical spirituality is that it not only offers magnificent metaphorical and narrative texts but that it goes beyond them. By means of the techniques of meditation and self-emptying, the person in search of interiority ultimately learns to leave text and word, image and concept behind and thereby allow himself or herself to be addressed by a more original word: "If the word has lost the power to reach the heart, then it is all the more important that we ourselves discover our own heart. When we find the way to our heart, when we are able to penetrate to the depths of our own existence, then the words will acquire their meaning and sound once again, and we also shall understand the depths from which the word was originally spoken."²⁰

²⁰ Jeroen Witkam, *Bewaak je hart. Diepte-inkeer en gebed*, (Antwerpen/Amsterdam: Patmos, 1975), 53.

The first step: contemplation

One possible path to interiority passes indirectly via relaxation and a contemplative approach to the reality surrounding us. Our lives are lived for the most part under enormous pressure and at an incredibly hectic rhythm. We observe reality as a succession of images that appear like a landscape seen from a high-speed train. Moreover, we are hopelessly confused. Our attention is drawn from one thing to another, to several things at the same time. As a matter of fact, such confusion is the opposite of what Rilke calls “sich sammeln: concentrating everything in life from one central point of interest or life option.”

A simple method exists that helps us to leave behind the multiplicity of thoughts and ideas that run through our head, the images and concerns that make our consciousness uneasy: concentrating on something, paying attention to something. In this regard spirituality is not an escape from reality, but a way towards more attention for what is.

Let me clarify this with an example.

One can visit a museum with a guidebook in hand and ‘consume’ the paintings and images one sees with great haste. The result is usually disappointing: one doesn’t give the artwork the necessary time to reveal itself. All we notice is whether what we see corresponds to the image we had already formed of the artwork on the basis of a photograph or a description or a commentary. As long as we are only willing to see what confirms our expectations, then we are more preoccupied with ourselves than with reality. The artwork’s expressive richness does not get through to us. The one who maintains in advance that he or she understands reality will not be likely to allow his or her tried and trusted interpretations to be interrupted. The mystery of the artwork is thus incapable of revealing itself.

If you take your time, on the other hand, a half-hour or fifteen minutes, to look calmly at an artwork and to allow it to get through to you, then it will begin to ‘reveal’ itself. It will interrupt the familiar interpretations that are never completely capable of uncovering the richness of the work and it will manifest meanings that are not simply in line with our own expectations. All sorts of aspects make their way to the foreground that are otherwise missed by the hasty glance. Only a contemplative attitude allows the radical otherness of the artwork to be discovered. Only thus can we be enthralled by what we see and allow it to let us see the world in a new light.

Thanks to a contemplative attitude in which we are open to reality, to what is, in everything we think, see and do, we allow the reality of people and things to speak instead of imposing ourselves on reality. This has the potential to increase our attentiveness and thus also our openness for the unexpected, for the unplanned; openness for new challenges to which we would otherwise have been blind.

It is possible that a great deal of creativity and originality is being lost in the business world because of a lack of contemplation in action, because of our eagerness to manipulate reality or to intervene in reality before it has had the chance to reveal its potential. Without contemplation in action, even the creation of crucial services and goods are under threat of being neglected because we pay insufficient attention to what is going on around us, to what people with whom we work are trying to say

with their words and symbolic behaviour. In other words: spirituality leads to improved attentiveness and increased care.

The second step: meditation and the courage to be

Attention is not sufficient. In order to liberate managers from the manipulation of their soul, a more systematic exercise of mediation is necessary.

With the help of a number of Eastern religions, Western men and women have also acquired a greater awareness of the physical dimension of meditation. This awareness begins with a change of attitude towards our breathing. The activist breathes as if he or she is in control of his or her life. The person engaged in meditation turns the tables completely. Our breath is not something we draw into ourselves but rather something we gratefully receive. When we breathe out we let go of everything, when we breathe in we adopt a receptive openness to the current of breath that is received as a gift.

Receptivity is one of life's most important basic attitudes and confronting ourselves with emptiness is crucial here.

But emptiness needs to be understood. It runs counter to the misconception that the experience of meaninglessness and loss of meaning, to which we referred in the first part of the present chapter, can simply be solved by offering 'meaning' in its place. Meaning does not come about when we try to reverse meaninglessness. The manner with which contemporary men and women search for meaning sometimes leaves the impression that something actually exists that we can call 'meaning' and that we can ultimately find and set in the place of the emptiness that we experience as meaningless. There would appear to be a fundamental misapprehension at work here: meaninglessness is associated with emptiness and thus meaning has to do with filling the emptiness. Activist pressure is continually present, urging us to dispel the emptiness, to fill it, to anaesthetise the pain of emptiness and cover it over. Just as comfort does not remove sorrow, however, the search for meaning cannot dispel emptiness:

Meaning and absurdity are not related to one another as plus or minus. Meaning has more to do with the capacity to live with emptiness.²¹

Confrontation with Vulnerability and Darkness

This moment of self-emptying (*kenosis*) leads to a characteristically painful phase: the confrontation with the self as a mortal and finite being. The activist, the human person who imagines himself or herself to be autonomous, who organises his or her existence as it suits him or her or who forces others to bend to his or her will, acts as if he or she is immortal, as if he or she is the centre of the universe, as if everything is possible and there are no boundaries. Such an individual sets out to master himself or herself and to master others. He or she behaves like a manager of life.

²¹ Bart Raymaekers, 'Zoeken naar zin en de zin van het zoeken', in: *Ethische Perspectieven*, 7 (1997), 3–4, 173–174.

This illusion is shattered in the silence of introspection. The individual engaged in meditation experiences himself or herself as an extremely vulnerable being, a fragile reed, irretrievably subject to the limitations of time. He or she discovers that he or she is a created thing, a creature and not God. According to Burkhard Sievers, one of the most pertinent deficiencies among top managers is the illusion that they enjoy imperishable power over others. The person guilty of self-deification, of turning himself or herself into God, is also likely to exhibit the tendency to subject others to himself or herself, to reify them and manipulate them.²² This attitude is crushed in silence and meditation, since even the most powerful of people ultimately comes to realise therein that he or she is an ordinary, mortal creature and thus also a human being among others human beings. The person who is able to look his or her own limitations in the face will also be more likely to recognise the vulnerability of others and to deal with others differently.

Genuine leadership demands that we dare to look our weaknesses and limitations in the face and not ignore them. Only then can we set free our potential creativity and leadership qualities.

The readiness to confront one's own limitations, boundaries and pain also demands a capacity to relive our wounds, to re-live them rather than re-think them as Henri Nouwen so aptly puts it.

What follows in the process of meditative self-emptying is a shocking experience of the truth of our own lives. Of course, we also become aware of the good, of what it is that inspires our lives, of deeper desires that bring peace when we give in to them. Nevertheless, we can be confronted equally with lack of completion, with inner division, brokenness, loneliness, opposing desires, aggression; everything that makes us less of a person, all of our shortcomings. All these things can emerge into consciousness in the self-emptying of the heart and sometimes with the most terrifying clarity.

Confrontation with primal human sadness can be such a painful experience that it can result in debilitating anxiety, anxiety that has the capacity to lead some men and women to the edge of the abyss. Questions arise that cannot be ignored: is the desire to be a good person not some sort of Sisyphean torture? Does life have any meaning?

Such questioning can become obsessive and narcissistic. One can then end up trapped in a sort of 'I' oriented self-pity. On the other hand, it also has the capacity to clear the way for an experience of liberation.

Every one of us has experienced such moments, moments when there seems to be no satisfactory answer to the questions that plague us, moments when it seems that all our anchors have disappeared. The anguish resulting from unanswered questions, however, can occasion emancipative insight. An illustration can be found in Dostoevsky's *The Brothers Karamazov* when Ivan says to his brother Alyosha: if I

²² Burkhard Sievers, 'Participation as a Collusive Quarrel', in: *Ethical Perspectives*, 3 (1996), 3, 128–136.

have given up every hope of understanding life, “only then do I feel a thirst for living, a longing for something that will make me drink the cup to the dregs.”

It is only when I am no longer able to talk nice about life that I get a sense of what life really is.

When we have the guts to drink the cup of life to the dregs – a place we can never aspire to without hard confrontation with the deepest layers of the self – then we come to realise that initial doubts and existential anxiety need not lead to despair. In the experience of inadequacy and the absence of ready answers to life’s questions, we come face to face with a response to the question of recognition, of acceptance, of redemption.²³

In the process of becoming aware of these questions, a further positive experience unfolds whereby an extended supportive hand invites us, as it were, to take the plunge – a leap of faith – and to endorse life as meaningful. This leap of faith is what Paul Tillich refers to as ‘the courage to be’, the courage to accept that we are accepted at the deepest level of our being.²⁴

At its deepest, spirituality as a precondition to leadership is a leap of faith and thus an act of faith. For the believer it is to accept oneself and entrust oneself to ultimate acceptance by God, the submission of oneself to a love greater than oneself and the source of every possibility of love.

Even for the atheist it remains an act of faith: the refusal of ultimate meaninglessness and a leap of faith in the rejection of nihilism. The non-believer endorses the ultimate meaningfulness of life in a non-theistic manner. In spite of his or her initial experience of absurdity, his or her protest against the latter serves to open him or her to a horizon of new possibilities.

The most important point of connection between spirituality and leadership is to be situated here in this fundamental act of faith. Rooted in the discovery of a profound security in our existence, an intense trust and elementary freedom are made possible that rupture the mechanism of secondary narcissism, our dependence on pats on the back for self-confirmation. A turnabout is thus made possible from a mimetic or imitative existence, a ‘vivre selon l’autre’, an existence aimed at making others happy, a way of dealing with others rooted in an (easy to manipulate) appeal for confirmation, to a life founded in authentic freedom.

Such redeemed autonomy is precisely the opposite of the attitude of the person who continually sends out signals in order to remain continually up-to-date about what the world expects or desires of him or her. The person who then adapts himself or herself to such expectations or desires is not worthy of leadership:

If the business world elevates the constantly adapting individual to the level of an ideal, there will be little room left for creativity and leadership. Organisations will ultimately suf-

²³ A most interesting elucidation of the role of basic trust via mediation and spirituality can be found in the book of Noémie Meguerditchian, *Entrer dans le discernement spirituel. Quelques repères psychologiques*, (Paris: Desclée De Brouwer, 1997).

²⁴ Paul Tillich, *Systematische Theologie*, III, Stuttgart, 1966, 268.

fer under such circumstances, because their behaviour excludes the very individuals whose life consists of investment in their work and in people.²⁵

Genuine autonomy begins with a life lived from within one's deepest self. This calls for an extraordinary form of obedience, not to an alien law that has the potential to crush the individual but rather to that to which one is called most profoundly.

The third step: discernment and the fundamental option

Authentic depth experiences and self-assessment are anything but naïve and unworldly, because the inner peace one finds reconnects us with the outer world with greater clarity. It even leads to a personal verification of a holistic image of the world that runs counter to the mechanistic paradigm within which many a management theory remains locked.

In an organic-holistic paradigm there are no longer brute facts that we can manipulate but rather countless singular events that are always related to one another, are bound together organically and are never chaotic. Every event, even the tiniest change, has an influence on the whole, precisely because everything is bound to everything else. This creates new possibilities. In contrast to the post-modern resignation to the impossibility of manipulating the world and humanity on the basis of an all-embracing blueprint, reference has been made in recent years to the strategy of small steps that qualitatively influence the whole and ultimately change it. Scott Peck speaks in this regard of the formation of communities in organisations, for example. Large structures are not easily changed by management techniques, but the formation or establishment of communities within organisations is possible. When people deal with one another differently, the institutional context and ultimately the organisation within which they function will change. Change is thus no longer a question of manipulative management but of processes of change that are fundamentally human in solidarity with others.

As Ghandi said: One must first become the change that one desires to take place in the world.

But this change also requires discernment, another forgotten precondition to responsible leadership.

We have most likely lost sight of the fact that before there can be any talk of ethics in the sense of reasonable reflection on the correctness of decisions or the reasonable balance between the worthy and the unworthy, a person must first form himself or herself as a moral person, capable of distinguishing between the essential and the secondary, a person who has learned to discern the direction he or she would like to follow in life.

Discernment has a specific significance in the tradition of the spirituality of Ignatius of Loyola. Discernment is a process that must precede every concrete moral decision. It has to do with the fundamental question: how can I recognise and live out my unique, personal vocation in the world in which I am professionally engaged?

²⁵ Abraham Zaleznik, *De mystiek van het management. Het belang van leiderschap in het bedrijfsleven* (Utrecht/Antwerpen: Veen, 1990), o.c., 204 (I retranslated from the Dutch text).

In order to arrive at an answer to this question one must first listen in silence to what moves us in the deepest core of our being. In his *Spiritual Exercises*, Ignatius speaks of sensing and becoming conscious of movements that are manifest in the soul. Every human being is aware that he or she is being torn in a variety of directions at once. There are desires that confuse us and deeper desires that grant us inner joy and sometimes there is conflict between the two. Together with Ignatius we can use the metaphor of the battlefield: our divided self is at war. We realise that we are divided, that we have different sorts of desires. If we focus our attention for a while on a desire that does not ultimately grant inner joy, then the desire in question will ultimately come to demand so much attention and energy that more fundamental desires are lost sight of. The core of the discernment process is thus to ascribe a place in our lives once again to deeper desires. It is not a question of some crushing *heteronomous* demand, or a task imposed from outside ourselves. On the contrary, discernment as the discovery of the prayer 'Thy will be done' brings us into harmony with ourselves and with our most personal vocation. It is a question of accepting a task that is in complete harmony with the movement we sense in our inner self. Every human person is created to contribute to the humanisation of the world in his or her own unique and personal fashion. The discovery of this fact is not only passive, however, it calls for an active choice. We have to make a decision about the stance we wish to take in our lives as a whole: to side with humanity and life or to side with destruction.

Conclusion: The Courage to Act

The fact that discernment and choice ultimately cannot be separated from one another has one important implication: it brings us to the realisation that spirituality cannot be limited to the search for harmonious security, enjoyable spiritual experiences, or to the fostering of oceanic emotions. Spirituality's path, on the contrary, is the difficult path of 'letting go' of such emotions. What such 'letting go' can imply can be elucidated in light of the images from Plato's story about the cave dwellers. While it is possible to leave the cave, Plato describes such liberation as a painful process. Confrontation with the light and with the real world of people and objects is not easy. No matter how painful the discovery of reality may be, it ultimately brings joy. The enlightened and liberated human person considers himself or herself to be happy and experiences a sense of pity for his or her former fellow prisoners. The story does not end in an atmosphere of euphoria, however. Plato goes on to ask what it would be like if the liberated person should return to the cave: the person who has seen the light is never believed. The cave dwellers consider the enlightened returnee to be so dangerous that they plan to kill him or her if the opportunity presents itself.

One might interpret Plato's story as follows: it is not the blissful sense of security or the joy of 'seeing' that stands at the core of the process of discernment but rather the pain of vocation and mission. It is about leaving the womb for an undistorted

perception of reality in all its veracity. Such 'letting go' will inevitably encounter resistance and opposition. People are generally more inclined to opt for the security of the illusions in which they are imprisoned than to confront the consequences of a new and more authentic consciousness.

The person who desires to take the lead in letting go of closed conceptual frameworks, to open the way to new meanings, to see with new vision and thereby be a leader of people, should not expect to be applauded. The option for genuine leadership demands courage.

Paraphrasing Vaclav Havel we can conclude that this courage is the pen with which we write in human history the story of a new creation. This creative and innovative attitude is the heart of leadership.

Chapter 9

Using Discernment to Make Better Business Decisions



Margaret Benefiel

Abstract Leadership is fraught with dangers. Half of decisions made in organizations fail. Studies of organizational leaders' decisions show that half of the decisions made are no longer in use after two years. Leaders use the most successful decision-making practices least often and the least successful practices most often. Studies show that most leaders can, in retrospect, identify their decision successes and failures, but they rarely subject them to systematic analysis, thus slipping into failure-prone decision-making practices time and again. What is a leader to do? Spiritual discernment keeps a leader operating on all four cylinders. This chapter will explore the practice of spiritual discernment, and how discernment can help a leader to make more ethical and effective business decisions.

Keywords Spiritual discernment · Effective business decisions · Reflection · Prayer · Leadership

Leadership is fraught with dangers. Half of decisions made in organizations fail.¹ What's a leader to do? Spiritual discernment keeps a leader operating on all four cylinders. This chapter will explore the practice of spiritual discernment, and how discernment can help a leader make more ethical and effective business decisions.

Leadership is fraught with dangers. Leaders become lightning rods, recipients of people's expectations, often unrealistic expectations. People project their hopes and

The content of this chapter is based upon material originally published in *Soul at Work: Spiritual Leadership in Organizations* © 2005 by Margaret Benefiel. Seabury Books, New York. Used by permission.

¹Paul Nutt, "Surprising but True: Half the Decisions in Organizations Fail," *Academy of Management Executive* 13 (1999), pp. 75–90. See also Nutt, *Why Decisions Fail: Avoiding the Blunders and Traps that Lead to Debacles*, (Berrett-Koehler, 2002).

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fears onto leaders and as a result, leaders and their actions become larger than life. In Western societies, leaders are expected to provide technical fixes for all kinds of problems, even those that have no technical fix. Many problems require wrestling with conflicting values among multiple stakeholders, and leaders who help their organizations do this work often meet resistance and become unpopular. Leaders bear the brunt of scapegoating. Occasionally they are assassinated.²

Furthermore, half of decisions made in organizations fail. Studies of organizational leaders' decisions show that half of the decisions made are no longer in use after two years.³ Leaders use the most successful decision-making practices least often and the least successful practices most often.⁴ Studies show that most leaders can, in retrospect, identify their decision successes and failures, but they rarely subject them to systematic analysis, thus slipping into failure-prone decision-making practices time and again. These failure-prone practices include: imposing decisions by edict or persuasion, taking a problem-solving approach to decisions, and cutting off exploration of alternatives too soon. Successful practices include: articulating objectives and asking employees to discover ways of meeting those objectives, and various forms of participative decision-making. The successful practices encourage learning and innovation and most often result in decisions which prove beneficial to the organization over the long term. The failure-prone practices most often result in decisions which don't work, are costly in financial terms and/or reputation, and are eventually abandoned. Well-known decision failures include Disney's decision to locate EuroDisney near Paris, Ford's decision not to fix the Pinto's gas tank after its danger was discovered, and Nestle's decision to continue to market infant formula in third-world countries.⁵

Most leaders want to make good decisions for their organizations, and their failed decisions are not for lack of trying. Because of such factors as time pressure, their perceived need to appear decisive, and unrealistic expectations from boards and employees, leaders often slip into decision-making practices that do not serve them well. Discernment can help leaders navigate through the dangers of leadership, and can help them make decisions that will stand the test of time. In fact, most decisions involve not only leaders but the teams with which they work closely. Leaders play a pivotal role in framing the decision-making process, and discernment practices can help them draw on their team's best creativity and thinking. Furthermore, since failed decisions can be a source of learning for leaders and their teams, discernment provides the retrospective pause before a costly mistake is made, encouraging experimentation and innovation.

²Ronald Heifetz, *Leadership Without Easy Answers* (Harvard/Belknap, 1994). See also Ronald Heifetz and Martin Linsky, *Leadership on the Line: Staying Alive Through the Dangers of Leadership* (Harvard, 2002) for a thorough discussion of the dangers of leadership.

³Paul Nutt's extensive studies over the past 25 years use the criterion of whether a decision is put to use long-term as the primary indicator of its success (Nutt, 1999, p. 77).

⁴Nutt, 1999.

⁵Nutt, *Why Decisions Fail*, p. xv.

What is discernment? The Latin word *discernere*, “to separate” or “to distinguish” or “to sift through,” is the origin of the English word “discernment.” Discernment involves “sifting through” interior and exterior experiences to know which help one stay centered and which pull one away from centeredness.

Discernment is a process of going deeper. It is drawing on one’s whole self, heart, mind, soul, and spirit. It includes and transcends intellectual analysis. It includes and transcends emotional intelligence. It is the bringing together of all of one’s faculties within the larger context of the transcendent. In discernment, one learns to distinguish the real from the illusory, the wheat from the chaff. Through being deeply spiritually grounded, the discernor cuts through the usual distractions and attachments that obscure accurate perception, and seeks to see reality clearly.

Discernment is practiced both individually and corporately. Even when done individually, it is never in isolation. Individual and corporate discernment dance together, hand in hand. Corporate discernment requires prepared hearts and minds of the individuals involved. Individual discernment requires the support of a community, nurturing and grounding the person’s spiritual life. Individual discernment also requires the accountability of a community, offering checks and balances to the individual’s discernment.

Historical Development

Discernment, a practice that has been used for centuries to good effect, has a number of roots. Although discernment, as a term, arose in the Christian tradition, the practice also appears in other spiritual traditions, referred to in different ways. The roots of the practice reach back as far as Aristotle. Aristotle outlined the components of decision-making as finality and means. Finality, he maintained, is the ultimate goal of humans: the common good, personal virtue, and happiness. When people deliberate, they weigh different means of achieving this ultimate goal. Authentic deliberation involves always keeping finality in view, and choosing means which are consistent with finality.⁶

The roots of discernment are also found in the Jewish scriptures and tradition. In the biblical worldview, Aristotle’s “finality,” the ultimate end of humans, translates into knowing the will of God and doing it. Such passages as

Speak Lord, for your servant listens (I Sam. 3:10),

O that my people would listen to me, that Israel would walk in my ways (Ps. 81:13),

Those who seek me diligently find me (Prov. 8:17),

reflect a worldview in which humans understand that knowing the will of God and doing it are both desirable and possible.

⁶Aristotle, *Nicomachean Ethics* (Cambridge: Cambridge University Press, 2000).

Early Christians blended Aristotle, the Hebrew scriptures, and the New Testament as they began to articulate their understanding of discernment. Such New Testament passages as

He who has ears to hear let him hear (Matt. 13:43),
 The one who belongs to God listens to the words of God (Jn. 8:47),
 Let the person who has an ear listen to what the Spirit says to the churches (Rev. 2:7),

built on the Old Testament passages which urged believers to listen to God and do God's will. The Desert Father and Mothers developed teachings on discernment, which were later systematized by monks like John Cassian (d. 435) and John Climacus (d. 649). Ignatius of Loyola (d.1556) wrote the first long treatise on discernment which subsequently became the strongest influence on Christian discernment, though many other Christians, such as Carmelites and Quakers, also developed strong discernment traditions.

Analogues to the Christian discernment process also occur in other traditions. In the Buddhist tradition, the Buddha teaches "the importance of opening the eye of Dhamma, allowing one to see things just as they are."⁷ According to the yogic traditions, past actions "cloud a person's ability to see the world clearly; the practices of yoga purify a person's karma, allowing one to see things as they are."⁸ The Sioux tradition refers to the "eye of the Great Spirit" enlightening one's heart so that one might "see everything" and through this vision help one's neighbor.⁹ In Sufi understanding, after initiation into the Sufi path the dervish continues the journey according to the principle of *La ilaha ilallah*, "called the sword of light because of its power in dispelling illusion and revealing truth."¹⁰

Because discernment has been most fully articulated in the Christian tradition, this chapter will provide an exposition of the practice in Christian language. At the same time, it is important to note that a similar exposition could be provided in the language of other traditions. In Christian understanding, discernment occurs in the larger context of God's love. God's loving care envelops all, making no distinction between the "secular" and the "sacred." Discernment is about hearing God's call in the midst of where one serves, whatever the context, knowing that God is active even in the midst of the messiest of situations. Hearing God's call and responding to God results in freedom, freedom from the need to please others, freedom from attachment to personal gain. As one hears God's voice in the midst of the cacophany of voices all around, both internal and external, one moves into ever greater freedom.

Over the years, Christians have articulated specific guidelines for practicing discernment: for preparation, for recognizing impediments to discernment, for the practice of discernment itself. Guidelines for preparation for discernment include

⁷Tejadhhammo Bhikku, "Some Aspects of Spiritual Direction within a Living Buddhist Tradition," in *Tending the Holy: Spiritual Direction across Traditions*, ed. Norvene Vest (Harrisburg, Pa.: Morehouse, 2003), p. 6.

⁸Christopher Key Chapple, "The Guru and Spiritual Direction," in *Tending the Holy*, ed. Vest, p. 36.

⁹Andrew Wilson, ed., *World Scripture* (New York: Paragon House, 1991), p. 382.

¹⁰Fariha Al-Jerrahi "The Sufi Path of Guidance," in *Tending the Holy*, ed. Vest, p. 23.

nurturing a trusting attitude toward God, learning to listen, prayerfulness, familiarity with Scripture, humility, and patience.¹¹ Widely recognized impediments to discernment include self-interest, self-absorption, self-righteousness, desire for security, attachment to a particular outcome, and desire for certainty.¹² The discernment process itself requires: maintaining an open and reflective attitude; an ability to listen to where God might be speaking, including through unexpected people and events; patience in waiting for God's answer; an ability to live with ambiguity; and a willingness to test the discernment by its fruits.

Discernment and Leadership

How does all of this relate to leaders? Leaders face many pressures each day. A cacophany of voices surrounds them. They live in the midst of endless busyness and uncompleted to-do lists. People look to them for answers to complex problems for which the leaders lack adequate understanding and problem-solving skills.

As noted above, studies show that half of the decisions made in American companies fail. The primary causes of these failures are 1) premature commitments, 2) overemphasis on analytic evaluations, and 3) using failure-prone decision-making practices.¹³ As Delbecq, et al. point out in their article, "Discernment and Strategic Decision Making,"¹⁴ discernment can usefully be brought to bear on this problem, helping leaders address these common decision failures. This section will examine each of Delbecq, et al.'s five principles for bringing discernment to decision-making, illustrating each principle with examples of leaders and organizations. Leaders can practice these principles and develop the skills of discernment both by following the examples of the leaders provided below, and by experimenting with their own teams to find ways of putting these principles to work that fit their own personalities and cultures.

Entering the Decision Process with a Reflective Inner Disposition

Foundational to bringing discernment to a decision, a reflective inner disposition must be cultivated. Far from being a template that can be pulled out of a bag of tricks at the moment it is needed, discernment grows out of ongoing inner

¹¹ Suzanne G. Farnham, *Listening Hearts: Discerning Call in Community* (Harrisburg, Pa.: Morehouse, 2001), pp. 30–34.

¹² *Listening Hearts*, pp. 36–37.

¹³ Nutt, 1999, 2002.

¹⁴ Delbecq, Liebert, Mostyn, Nutt, and Walter, "Discernment and Strategic Decision Making: Reflections for a Spirituality of Organizational Leadership," *Spiritual Intelligence at Work*, Moses Pava, ed. (Elsevier, 2004), pp. 139–174.

preparation. While this inner preparation can take a wide variety of forms, it can only be neglected to the leader's peril.

For example, Bob Carlson, retired co-CEO of Reell Precision Manufacturing (a manufacturer of hinges and clutches in St. Paul, Minnesota) practices walking in nature, listening to music, and attending worship services at his church. These practices kept him nurtured and centered for his role as co-CEO. When he doesn't get enough time for his spiritually renewing practices, Bob notices the difference:

I think the big enemy of spirituality is busyness and the lack of reflective time, of quiet time. When things get really busy, when there's travel, board meetings and shareholder meetings and a number of things going on at the same time, I'll wake up some days and think, "You know, there's just not much happening right now in a spiritual sense."

Bob finds that his quiet, reflective time is essential to maintaining his depth and effectiveness as a leader.

Reell's Direction Statement begins with the principle, "We are committed to do what is right, even when it does not seem to be profitable, expedient, or conventional." Bob has learned that staying grounded helps him discern what is right. At Reell, though discerning what is the right thing to do is not always easy, leaders have discovered that discerning what is ethical is easier than discerning what will be most profitable.

Genny Nelson, co-founder of Sisters of the Road Café (a Café for the homeless in Portland, Oregon) takes time to get away from the pressures of leadership at the Café. Genny's journaling practice keeps her attentive, centered, and aware. Her time-out in the nearby downtown chapel to pray ground her and give her perspective on the challenges she faces. These practices cultivate a calm and open inner disposition, and they form the foundation for her ongoing dialogue with God which she maintains throughout the day.

Theresa McCoy, former director of Greyston Family Support Services, maintained her regular practice of doing her chanting prayers. Even on busy days, she took the time to pray, whether at home or in the office. In addition, she noticed her reactions to people, and stopped to reflect on them. Theresa sought to step away from reactivity and into groundedness, for example when she noticed her strong negative reaction to an opinionated person, and upon reflection, saw the same thing in herself. Theresa's practices formed her inner disposition and prepared her for discernment.

Theresa was supported in nurturing her predisposition for discernment by her organization. At Greyston Foundation, the umbrella organization under which Greyston Family Support Services lies, a process parallel to the Christian discernment process is articulated in Buddhist terminology. Bernie Glassman, the founder of Greyston, articulated a three-fold sequence for perceiving reality: (1) not-knowing, i.e., shedding preconceived notions, (2) bearing witness, i.e., gazing steadily at what is, and (3) healing, i.e., taking action that will lead to spiritual transformation and healing. Greyston leaders practice this process and integrate it into their life in the organization.

Patience in the Discovery of the Underlying Nature of the Decision Issue

While leaders often face enormous pressures to make decisions quickly, premature decisions are the leading cause of decision failure.¹⁵ This is primarily because leaders respond to the superficial presenting issue of a decision rather than taking the time to explore the underlying issues. A leader practicing spiritual discernment needs to exercise patience in allowing different viewpoints and underlying issues to surface.

Bob Carlson is a good example of a leader exercising patience in the face of diverse issues. In the economic downturn of early 2001, Reell Precision Manufacturing faced a 30 percent drop in revenues. Some members of the senior leadership team favored layoffs and some favored salary reductions, with a 6-5 split in the 11-member cabinet. While it would have been easy to push for a decision or call for a vote in order to ease the tension of the economic pressures, as co-CEO Bob Carlson helped the team labor together and examine all of the issues. For example, while layoffs would ease the immediate budget crunch, what would be their impact on morale? How would each course of action further Reell's mission and square with its Direction Statement? The team finally agreed on salary reductions, knowing that, to the best of their ability, they had thoroughly examined the implications of both possible decisions.

Undertaking the Hard and Time-consuming Work of Gathering Information

Leaders practicing discernment not only need patience in unearthing underlying issues, they also need to do the hard work of thorough information-gathering. Too often decisions are short-circuited because leaders fail to ask what information is needed, or they fail to gather all the necessary information, or they fail to pursue the further relevant questions that arise once the information is gathered.

As Joe Clubb, director of social work, led the strategic planning process for St. Joseph's Hospital at HealthEast (a hospital system in St. Paul, Minnesota), he did the hard and time-consuming work of gathering information. He involved all the stakeholders and elicited their input. He talked with the Sisters of St. Joseph, whose forebears had founded the hospital in 1853, to hear their perspective on the mission, how it had been lived out over the years, and how they thought it should be lived out as HealthEast moved into the future. He gathered information from nurses about clinical issues and personnel issues. He gathered information from physicians about clinical issues. He gathered information from the board and administration about

¹⁵ Nutt, 1999.

mission, financial issues, and how St. Joseph's Hospital fits into the larger structures and long-range plan at HealthEast. In all the information gathering, he sought to maintain an attitude of prayerful attentiveness, being open to all voices, and eliciting different points of view.

Reflection and Prayer

Dealing with underlying issues and processing vast amounts of information from multiple stakeholders is no easy task. Reflection and prayer help leaders sift through data and pay attention to what is most important. The definition of discernment provided by Delbecq, et al. is in this regard apposite:

Discernment is not a promise of “technical” solutions, or secret knowledge that eliminates uncertainty or suffering from the process. Discernment rather gives us a sense we are proceeding in the right direction, and that “God is with us,” sharing gifts of peace, love, and joy even in the difficult discovery process.¹⁶

Leaders who experience increased freedom and a sense of inner peace know that they are on the right track. A leader who experiences agitation, fear, or an uneasy feeling in the pit of his/her stomach, knows to pay attention, knows that something could be amiss.

When Genny Nelson brought Sisters of the Road Café's financial struggles to God, and said, “I'm laying it at your feet,” she experienced God's peace and a fresh perspective on her struggles. She gained insight into steps she needed to take, and she knew she was on the right track.

The rock band U2 relies on all members of the band to exercise leadership and create the “U2 atmosphere” in the band and the larger U2 community. Because of the depth of trust and honesty in the group, everyone is expected to speak up when an issue needs to be addressed. As The Edge says, “When I feel uneasy with the direction we're going, I need to speak up and call the person or group on it.” A band member pays attention to his feelings, to that uneasy sense he might get in the pit of his stomach, and he speaks his truth. This commitment to speaking truth to one another has saved band members from inflated egos taking over and has kept the band together for twenty-five years, highly unusual for a rock band.

Tentative Decisions and Attention to Outcomes

Successful discernment relies on the “contemplative pause” when the discernment nears its conclusion. Leaders ask themselves, “What does the fruit of this decision seem to be?” They apply the tried and true tests of discernment. Are the “fruits of

¹⁶Delbecq et al., p. 166.

the Spirit” (Gal. 5:22–23), i.e., love, joy, peace, patience, kindness, goodness, gentleness, faithfulness, self-control, more in evidence? Do the leader and other members of the organization feel an increased sense of freedom to live into their callings and to live out the organization’s calling? Is morale higher? Have energy and creativity increased?

When Reell Precision Manufacturing’s cabinet decided to take graduated salary cuts in 2001 rather than do layoffs, they paused to notice the implications before implementing the decision. Comparing their decision to past similar decisions in the company helped them anticipate the fruits of their discernment. And they continued to pay attention once they carried out the decision. Bob Carlson reported increased energy, increased morale, and an increased sense that “we’re all in this together.” Perhaps the most important confirmation Bob Carlson noted was from those who were initially skeptical:

Several of the people who were for the layoffs have come back, 12–18 months later and said, “You know, I think the salary reductions was the right decision.”

Conclusion

Leadership is fraught with dangers. Pressure for quick decisions, the culture’s overreliance on rational analysis, and the perceived need to appear decisive are but a few of the forces that can impair a leader’s ability to make good decisions. By practicing discernment, spiritually grounded leaders are less likely to fall prey to the pitfalls surrounding them. Maintaining a reflective inner disposition, patiently seeking underlying issues, gathering information, approaching a decision with reflection and prayer, and testing a decision by its fruits, all help keep a leader operating on all four cylinders.

Chapter 10

Moral Imagination and the Strivings for Moral Progress: A Reflection on Richard Rorty



Paul T. Harper

Abstract In August 2005, Richard Rorty gave a keynote address to the Society of Business Ethics entitled, ‘Is Philosophy Relevant to Applied Ethics?’ Rorty explored two distinct but related dimensions of moral discourse, namely, the philosophical and the pedagogical. He arrived at the important conclusion that the philosophical ethics curriculum must itself come in for some overdue scrutiny if applied ethicists are going to effect a change in the ethical culture of institutions and participate in the progress of the moral development of individuals. Rorty went on to say that even though philosophy has does not occupy a position of privilege when it comes to conceptualizing moral reasoning processes relative to other academic disciplines, it continues to be useful for the intellectual process of determining what it is right for us to do and believe in any given understanding of a complex live situation. I argue that speculative modes of philosophy, that attempt to understand that which is always already beyond empirical experience, is a key driver for the procurement of moral progress.

Keywords Richard Rorty · Philosophy · Moral Imagination · Critical Management · Moral Progress

Introduction

So dawned the time of *Sturm und Drang*: storm and stress today rocks our little boat on the mad waters of the world sea; there is within and without the sounds of conflict, the burning of body and rending of soul; inspiration strives with doubt, and faith with vain questionings. The bright ideals of the past – physical freedom, political power, and the training of brains and the training of hands – all these in turn have waxed and waned, until even the last grows dim and overcast. Are they all wrong – all false? No, not that, but each alone was over-simple and incomplete... W.E.B. DuBois, “Of Our Spiritual Strivings”¹

¹ *The Souls of Black Folk* (New York: Blue Heron Press, 1953[1903]).

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The field of business ethics does not currently have a prominent theory of moral progress. That is not to say that there are not many within the field who have expressed progressive beliefs and appealed to progressive ideas. But a theory of moral progress demands an intellectual basis for the justification of a belief in the possibility of moral progress, and the ontological assumptions that must be adopted for such a possibility to be persuasive. Further, a theory of moral progress must articulate a means and method for its recognition. Finally, a theory of progress must tend to the historical, social, and cultural traditions from which it emerges with an aspirational attitude toward innovation and improvement. Those philosophers and theologians who concern themselves with the question of moral progress will find little worth challenging in these developmental assumptions. Richard Rorty was a professionally prominent exception.

Rorty occupies a unique, if somewhat conflicted, position within philosophically informed ethical discourse. In one breath, he asserts the value engaging in the history and tradition of philosophy as a means for understanding the universally expressed concern for existential meaning and the meaning of human flourishing, which are not to be confused with each other. But, in the next breath, Rorty would have his audience believe that in the future, questions of existential meaning and the meaning of human flourishing would be better answered by scholars in fields other than philosophy. To be fair, he believes that a theory of moral progress is approachable from all academic disciplines and that no one area of study occupies a privileged epistemic position. Returning to the discipline of philosophy, in Rorty's remarks he was particularly concerned with philosophical pedagogy, which he believed to be an impediment to that field's ability to develop a theory of moral progress.

In this reflection, I will take up Rorty's question with the relationship between philosophy and both the theory and procurement of moral progress. I will not address whether the discipline of philosophy offers a privileged view into human motivations. My concern lies in the related and relevant question: *which kind of philosophy best serves as a foundation or grounding for a theory of moral progress?* In other words, I am less concerned with the status of philosophy and instead with the choice of philosophy. Critical philosophy can serve to ground a theory of moral progress that, if adopted, could lead to improvement in practical affairs.

Before launching directly into the choice of philosophy it may be prudent to provide more disciplinary context about this conversation from within business ethics. The question of a foundational methodology in business ethics is a running and constant conversation within the literature. A significant moment within the field occurred in 1994 and was chronicled in a special issue of *Business Ethics Quarterly (BEQ)*, edited at that time by William Frederick, who challenged scholars to articulate the grounds for any compatibility between humanistic and scientific approaches to questions of business ethics.² The topic was revisited again in 2008 in a series of responses to Joachim Sandberg's study that explored the philosophical

²"General introduction: The elusive boundary between fact and value." *BEQ*, 4 (2): 111–112.

roots of the so-called ‘separation thesis.’³ Between those two moments, Richard Rorty delivered a keynote speech to the Society of Business Ethics 2005 entitled, “Is Philosophy Relevant to Applied Ethics?”, which is the target of my reflections on the topic in this essay.⁴

Why is it important for a field – including an applied field – to examine its own theoretical and conceptual foundations? Some may see this behavior as navel gazing. But, to the contrary, it is essential to the process of measuring progress, a concept that will be prominent in the current study. Approaching a field geneologically sets the conditions under which the discourse proceeds as well as exposes the intellectual norms and boundaries of the field; e.g. what ‘counts’ as ethics or business ethics. The examination is also a moment for interrogating a fields values, both implicit and explicit, which amplifies its stakes.

Fewer and fewer business ethicists find their academic training in philosophy. Given that the field’s identity purports to be centrally concerned with ‘morality,’ ‘ethical discourse,’ and ‘justice,’ it must appear ironic to some that anyone would be asking for an explanation of philosophy’s relationship to business ethics. Surely, the fact that it is considered an applied field has carries little meaning in this conversation. As far as I can surmise, Rorty has been asked by the SBE to explore the question for two important reasons. The first concerns the impending retirements of many of its founders, many of which were professionally trained as philosophers, theologians, and religionists. Who stands to inherit the field? The second reason is specific to Rorty himself. Since his monograph *Philosophy and the Mirror of Nature*, Rorty has been popularly characterized as an “end of philosophy philosopher,” e.g. one who aims to curtail the discipline of philosophy’s hegemony over the key concepts of moral discourse and the tradition of moral inquiry long believed to be its special intellectual domain.⁵ For both non-philosophers and disenchanted philosophers Rorty’s deconstruction of the discipline represents a salvation of sorts, a justification for not wading through the murky, difficult, and non-diverse discourse of the Western philosophical tradition. If the first reason for Rorty’s speech addresses philosophy as a tradition, the second reason is more centrally about representation.

In his speech, Rorty explored two distinct but related dimensions of moral discourse: the philosophical and the pedagogical. He concluded that the philosophical ethics curriculum must itself come in for some overdue scrutiny if applied ethicists are going to utilize it to effect a change in the ethical culture of institutions and also participate in the progress of the moral development of individuals. I mentioned earlier that Rorty made the claim that the discipline of philosophy had no privileged position in from which to develop moral theories when compared to other academic disciplines. His liberal approach also attached to applied ethics, e.g. that philosophy is as helpful as any other discipline but no more. My approach will differ from Rorty’s by specifying the contributions of specific philosophies and philosophers

³“Understanding the separation thesis,” *BEQ* 18 (2): 213–232.

⁴*BEQ*, 16 (3): 369–380.

⁵Princeton: Princeton University Press, 1979.

rather than stressing the interdisciplinary nature of good theoretical inquiry. Therefore, this paper, while spending time analyzing Rorty's thoughts on the value of philosophy and the values inherent in its pedagogy, will ultimately advocate for the work of a specific critical philosopher: Michel Foucault.

Hegel provided us with a useful way to understand the two modes of modern philosophizing at a general level: reflexive and speculative.⁶ The reflexive mode is characterized by a systematic approach that seeks to model our knowledge of the world on a hermetically sealed but complex set of relationships. Reflexive philosophers try to work out general principles and axioms from which all subsequent knowledge claims must derive. Systematic completeness is the goal of reflexive philosophers. Rorty is particularly critical of this mode of philosophy. Speculative philosophers, by contrast, have a very different moral anthropology, having learned from social and clinical psychologists that the way people actually make decisions is far from programmatic and computational. Speculative philosophers have a view of the mind that includes emotions and imagination in the reasoning processes and, as a result, they can account for the possibility of decisions that would be unpredictable for the reflexive philosopher. The speculative mode is characterized by an attitude of openness and is undaunted by incompleteness in its approach to knowledge. To speculate is to strive, and it is in this mode where philosophers, while accounting for epistemological limitations, continue attempts to ground meaningfulness metaphysically.

On its surface, it may seem like applied philosophy derives from reflexive philosophy due to the need for practitioners to arrive at fast and effective decisions. For philosophy to have a more catalytic role, one that aids in the process of procuring more insights, options, and worldviews, it must operate in the speculative mode. Speculative philosophers recognize that one cannot expand the number of conclusions one has about the world until one expands the number of questions one asks about it.

Ethicists in a philosophically speculative mode – I consider Richard Rorty to be in this camp – do the important work of attempting to articulate what is always already beyond the horizon of human knowledge. Though speculative ethicists are dubious to the attempts to separate claims of “what there is” from claims of “what we can know about ‘what there is,’” they do hold out for the hopeful chance that claims of “who we are” can be meaningfully separated from claims of “who we can be.” There is a contingent future with an ever-broadening moral horizon. The speculative mode of theorizing has the advantages of being able to provide a richer account of human ethical behavior that is also pragmatically prudent. As I will argue, if there is such a thing as moral progress, and I hope there is, it will be the result of these speculative efforts.

⁶G.W.F. Hegel, *Faith and Knowledge* (Albany: SUNY UP, 1977). In that text he makes the valuable distinction between speculative and reflexive philosophy. In his mind, reflexive – systematic – philosophy would end up being perfected within physics and mathematics departments. Speculative philosophy, then, was the only kind of philosophy that he believed would remain.

I used DuBois' thoughts about social striving to represent this position. It begins with the knowledge and understanding of past efforts to ask existential questions as a kind of cumulative material basis for future attempts at social, cultural, and political innovation. Social conflict and uncertainty characterize the situation of striving under DuBois' description, and it is this stress that serves as the impetus and motivator for *entering into philosophy* and initiating attempts toward progressive transformation and transcendence. Entering into philosophy is a way of *being*, a way of inhabiting, and a means for walking backwards into an always incomplete understanding of the future.

Given these philosophical consideration, what is the proper leadership curriculum? Historically, moral education has always been connected to notions of leadership and solidarity. Greek philosophers placed a high premium on theories and techniques of moral education because, they argued, a thoughtful citizenry is the most important precondition for a flourishing democracy. From the bardic performances of Hesiod and Homer, to the performance of the dramatic tragedies of Aeschylus, Sophocles, and Euripides at the annual festival of Dionysus, through the literary dialogues of Socrates and Plato and the peripatetic dispatches of Aristotle, one of the major contribution of the Greeks was to make clear the intimate connection between ethics and education. It is the question of the proper function and education of business leaders that continues to bring ethical discourse into the management domain. In the rest of this introduction I will articulate three different frames for approaching ethics in management. Then I will be in a position to engage and critique Rorty's speech more directly.

Imagination, Innovation, and Leadership

Consider Patricia Werhane's work on the moral imagination and its importance for managerial decision making:

I shall argue that most individuals...and institutions are not without moral sensibilities or values. Rather, they sometimes have a narrow perspective of their situation and little in the way of moral imagination. They lack a sense of the variety of possibilities and moral consequences of their decisions, the ability to imagine a wide range of possible issues...consequences and solutions.⁷

It will turn out that the simple teaching and application of moral principles or rules may not alleviate this problem, since it is not always lack of logic or ignorance of moral principles that causes moral amnesia but their specificity in their application. This specificity has not so much to do with the particular situation at issue, *per se*, but rather with how the situation is perceived and framed by its protagonist.⁸

⁷Patricia Werhane, "Moral Imagination and the Search for Ethical Decision Making in Management," *Business Ethics Quarterly Special Issue No. 1* (1998), 76.

⁸Ibid, 89.

The lunchpin of this process is a highly developed moral imagination that perceives the nuances of a situation, challenges the framework of the scheme in which the event is embedded, and imagines how that might be different.⁹

Werhane's insight that organizations need leaders who have a well-developed moral imagination is clear to those who are already dissatisfied with the commercial status quo and, therefore, predisposed to seek and make changes. But, many times it is hard to initiate important conversations that would be critical of current business practices or the people who execute them because businesses and leaders may be well served by the status quo and, therefore, have little motivation for seeking any change. In the language of striving speculation, it is difficult to motivate business leaders who hold positions of privilege in an organization to enter into philosophy. This is further exacerbated by the fact that training programs only teach the uncritical application of the reigning practitioner paradigms in the various business functions, thus leaving the theory development processes that drive business innovation to forces located outside the firm.¹⁰ Under this description, innovative thinking is limited to some kind of reaction by leaders of the firm to perceived changes in its commercial environment.

This is a problem because unless the market changes are predictable according to old and established methods of detection chances are that the mechanisms instituted to detect the movement will lie dormant. Business has a theoretical base and firms need leaders that can think beyond the present configuration of resources and the current arrangements between institutions. In order for them to do this, leaders have to think about what could have been and what could possibly be. Werhane's theory of the moral imagination acknowledges an expanded view of managerial thinking, one particularly appropriate to a leadership point of view. Business ethics education, then, should provide an intellectual basis for a leadership model where any given business leader could embody the nexus of innovation in thought and innovation in practice.

Critique, Responsibility, and Leadership

It is well established in the literature that all business decisions have normative content, regardless of their function or scale. A central task of the business ethicist is the excavation and exposition of that moral content and gaining some understanding of the stakes for those whose interests are involved. A central contribution of the ethicist to management practice is the presentation and application of precepts and models taken from the history of moral thought. But, to be useful, ethics should not be thought of as some external ruler by which a decision can be judged "good" or

⁹ Ibid, 92.

¹⁰ Mie Augier and James March, "The Pursuit of Relevance in Management Education." *California Management Review* Vol. 49, No. 3 (Spring 2007), 129–146.

“bad.” If it were, ethics would merely be a conversation about that external ruler (all too often this is the case). Karl Marx was right when he theorized that behavior merely complying with or following external rules is alienated and inauthentic.¹¹ Ethics must be characterized as something internal to the decision-making process and of ultimate concern to decision-makers in order for it to be something that is of interest to leaders rather than just philosophers and theologians.

How do you make ethical decision making an authentic enterprise for business leaders? Michel Foucault makes one of the most sophisticated contemporary analyses of the problems of authenticity and agency in morality by tying it to a particular characterization of virtue. Judith Butler characterizes Foucault’s contribution as follows:

There are some preliminary ways we can understand Foucault’s effort to see critique as virtue. Virtue is most often understood as an attribute or a practice of the subject, or indeed a quality that conditions or characterizes a certain kind of action or practice. It belongs to an ethics that is not fulfilled merely by following objectively formulated rules or laws. And virtue is not only a way of complying with or conforming to pre-established norms. It is, more radically, a more critical relation to those norms, one which, for Foucault, takes shape as a specific stylization of morality.¹²

For both Foucault and Butler, virtue is the action of thinking rather than merely an attribute of thought. This makes the subject of ethical reflection the person making the judgment. If we frame ethical discourse in this way, then it makes sense to prioritize that considerations of good people rather than good decisions. This understanding of ethics is particularly important in business because a firm cannot hold a decision accountable for its own effects. People must be held accountable for their actions and, therefore, the theoretical basis by which a firm holds people responsible for their acts must be based and the assumption of the freedom, authenticity, and thoughtfulness of the moral subject. It is only if we acknowledge that leaders have the virtue of critical thought that we can then hold them responsible for what those thought make them do.¹³

Moral Awareness, Self Awareness, and Leadership

...Ethics training must be broadened to include what is now known about how our minds work and must expose managers directly to the unconscious mechanisms that underlie biased decision-making. And it must provide managers with exercises and interventions that can root out the biases that lead to bad decisions. Managers can make wiser, more ethi-

¹¹ Karl Marx, “Alienated Labor,” in *Karl Marx: Selected Writings* ed. David McLellan (Oxford: Oxford University Press, 1977), 85–94.

¹² Judith Butler, “What is Critique? An Essay on Foucault’s Virtue,” in *The Judith Butler Reader* ed. Sarah Salih (Malden: Blackwell, 2004), 308.

¹³ See Hannah Arendt, “Personal Responsibility under Dictatorship,” and “Thinking and Moral Considerations,” in *Responsibility and Judgment* ed. Jerome Kohn (New York: Random House, 2003), 17–48 and 159–189.

cal decisions if they become mindful of their unconscious biases...What's required is vigilance – continual awareness of the forces that can cause decision making to veer from its intended course and continual adjustments that counteract them.¹⁴

Social psychologist Mahzarin Banaji developed a test for cultural bias in decision making. Her *Implicit Attitudes Test* measures the response time to different questions. By analyzing the variance in response times, Banaji is able to gauge how honest a person's answer is to any given question. As the above passage makes clear, the *Implicit Attitudes Test* is not just a method of diagnosis but also an important normative training tool. It can help with moral development and education just by making the manager aware that these biases exist.

The problem of biases and blind spots is a challenge for leaders in general. As one group of leadership psychologists has found:

For executives, whose success hinges on the many day-to-day decisions they make or approve, the psychological traps are especially dangerous... It's important to remember, though, that the best defense is always awareness. Executives who attempt to familiarize themselves with these traps and the diverse forms that they take will be better able to ensure that the decisions they make are sound and that the recommendations proposed by subordinates or associates are reliable.¹⁵

It is up to the manager to take a leadership point of view, which would demand incorporating the insights from the bias tests and colleague feedback into her daily routines. Leaders who seek out methods for obtaining information about their moral blind spots will prove to be more effective in achieving their organizational and personal goals.

In the next section, I will summarize Richard Rorty's argument for moral progress, which is grounded in the notion of the "moral imagination." I argue that his description of the moral imagination is not robust enough to procure the kind of moral progress he desires. I will offer an alternative model of moral progress by explicating the critical philosophy paradigm I think better explains moral progress based on Michel Foucault's critical method. I believe it allows for a broader and clearer pedagogical platform for moral development and leadership cultivation. In the third section, I will outline the shape of one kind of pedagogy that I think would serve to reinvigorate business ethics and make ethical discourse more of a reflection of our contemporary concerns. Our responsibility as ethicists is to provide for our audience intellectual resources that help them to identify and then work through the moral challenges of today's commercial environment. In the end, then, my leadership prescriptions will be a set of exercises where leaders can gain an intimate knowledge of life on the ethical frontier.

¹⁴ Banaji et al., 7.

¹⁵ J. Hammond, R. Keeney, and H. Raiffa. "The Hidden Traps of Decision Making." *Harvard Business Review* (Sept.–Oct. 98), 3.

The Moral Imagination and Applied Ethics

One of the lessons that Rorty has culled from the study of the history of culture is that our species improves with age, both technologically and socially. Humans are not doomed to repeat the same decisions; we learn. Further, the knowledge available to any person or people accrues over time. Consider Rorty's argument for moral progress from his speech:

One great divide in contemporary philosophy is between people who still believe something like [absolute justification], and those who, like me, believe nothing of the sort. For us, there is no particular connection between right action and clear thinking. There were clear-eyed Nazis and muddled saints. There is no connection between the skill of justifying one's beliefs – rhetorical effectiveness – and having the right beliefs. Being able to have the right beliefs and to do the right thing is largely a matter of luck – of being born in a certain place and a certain time. For purposes of having true beliefs about the movements of heavenly bodies, Aristotle was born at a bad time and place and Newton a better one. For purposes of knowing whether either torture or sodomy is a moral abomination, all of us were born into a better culture than were those who worked for the Inquisition.

For those of us who hold this view, the obvious problem is how to think of moral progress. If there is nothing of the sort that Plato postulated – an underlying sense of right and wrong that is common to all human beings at all times and places – can we still say that we have made moral progress since the days of the Inquisition? If we do not have a faculty called "reason" that can be relied upon to help us make the right moral decisions, how can we make sense of the claim to make better decisions now than when we were callow adolescents? The best answer to these questions, I think, is that individuals become aware of more alternatives, and are therefore wiser, as they grow older. The human race as a whole has become wiser as history has moved along. The source of these new alternatives is the human imagination. It is the ability to come up with new ideas, rather than the ability to get in touch with unchanging essences, that is the engine of moral progress.¹⁶

One of the lessons that Rorty has culled from the study of the history of philosophy is that our species improves with age, both technologically and socially. Humans are not doomed to repeat the same decisions; we learn. Further, the knowledge available to any person or people accrues over time. We benefit from the civilizations that have passed before ours, and those that come next will benefit from the achievements and the failures of our own age. Therefore, for Rorty, as humanity gets older and wiser it gets better at discriminating between choices based on its understanding of the moral implications.

Though this line of reasoning bears the odor of Hegel's philosophy it is important to note that Rorty is no Hegelian, e.g. he does not believe in an ultimate Historical Consciousness or Absolute Knowledge. Contra Hegel, Rorty's historical progression includes no eschatology or noble end-state. There is no "end of history" for Rorty's philosophy, and this poses a particular problem for his theory. Hegelians and Marxists have a built-in culminating point in their philosophies of history that, like inertia, pulls human history towards it. In their theories, the endgame explains the motion of history and the eschatology procures the historical progression. Rorty

¹⁶Rorty, 372.

has to rely on a different kind of explanation for the historical motion that he described as moral progress. Instead of “the end of history” it is the moral imagination that is the engine of progress.

Moral progress is not, on this pragmatist view, a matter of getting clearer about something that was there all the time. Rather, we make ourselves into new kinds of people by inventing new forms of human life. We make progress by having more alternatives to consider...

The emphasis I have been placing on the role of imagination follows a line of thought familiar from the work of Patricia Werhane. But I am inclined to adopt a more radical stance than hers. Werhane says that she realized that “ignorance of moral theory and lack of moral reasoning skills” were not enough to explain “why ordinary, decent, intelligent managers engage in questionable activities and why these activities are encouraged or even instigated by the climate or culture of companies they manage.” This realization, she says, led her to realize that “something else was involved: a paucity of what I have come to label ‘moral imagination’.” Her book argues that “moral imagination is a necessary but not sufficient condition for creative managerial decision-making.”

I suspect that it may, in fact, be sufficient, as well. I think of moral imagination not as a supplement to moral theory and moral reasoning skills, but as pretty much all you need. Although an acquaintance with moral theory may sometimes come in handy, you can usually get along quite well without it. The principles formulated by thinkers like Kant, Mill, and Rawls provide handy little summaries of sub-sets of our moral intuitions. Invoking such principles speeds deliberation, but it does little to help with the tough cases – the ones where institutions conflict.¹⁷

For Rorty, there is a fairly direct connection between the degree of moral progress a culture can claim and the size of its basket of alternative solutions to hard cases. As is clear from these passages, Rorty believes modern philosophers have spent most of their time asking the wrong side of the moral question. They are convergence theorists. What I mean by this is that modern ethical theorists have worked hard to promote a method for ethical decision-making that seeks to winnow down the number possible solutions to any problem. Convergence serves their intellectual goal of producing some sort of uniformity across decision makers. Convergence theorists have served their moral universe well if through their moral methodologies they can get most reasonable people to arrive at the same reasonable solution most of the time.

Rorty is a divergence theorist and, therefore, brings a more post-modern sensibility to ethical discourse. For him, it is not about limiting the number of reasonable responses but precisely the opposite. Divergence theorists are not interested in foreclosing on the future but, instead, find their motivation in the idea of a future unknowable in advance and, therefore, ripe with opportunities for novelty. “We create new forms of human life...” by not being overly committed to current and past modes of culture, and “...we have more alternatives to consider” when we become less satisfied with the alternatives currently under consideration and strive toward novelty. The divergence side of moral reasoning is more interested in multiplying

¹⁷ Rorty, 375–376.

the number of questions we ask of any one situation than it is interested in trying to posit the same solution to most moral questions.

Further, it is in an intellectual setting where the future is not assumed foreclosed or colonized that the imagination has the elbow room to *play* in way that is an valuable to the decision-making process. The problem of convergence as a theoretical outlook is that in its attempt to eliminate uncertainty it serves to smother diversity of thought. There is a significant difference between the elimination of uncertainty and the management of uncertainty: managers of uncertainty are leaders rather than Gestapos. And philosophers that seek to eliminate uncertainty plant the seeds of their disciplines demise.

Rorty believes that moral imagination moves morality forward because it helps leaders grasp novel solutions to customary questions that can then change the way we problematize people, places, and things in the present tense. In other words, the moral imagination can change with way we think about solutions by changing the way we think about problems. Again, we are opened to the future by continuing to struggle and rethink those understandings that have become commonplace and quotidian in the present.

This stance differs from that of the convergence theorist because of its risk profile. Convergence theorist work by attempting to convert uncertainty into risk. But this is folly for two reasons. First, convergence theorists leave themselves open to the risk that they attempt to sweep under the rug precisely because they did not find a way to convert the risky element from a strategic liability to a strategic asset. Convergence theorists are particularly prone to fall prey to the return of the repressed or oppressed. The second reason the hope for the elimination of risk is folly is that where there is no risk there is little return. Divergence theorists are willing to risk their comfort and stability for the idea of a better world order while understanding that a better world always already remains incomplete. For divergence theorists, then, the risk is that they or their children will end up with a world less attractive than the one they helped to undermine. In their attempt to expand the bandwidth of moral possibility, the starry-eyed divergence theorist can easily become complicit with the creation of a different world that is not at the same time particularly progressive. Divergence theorists are optimistic about the future of humanity and, though the path to progress is sure to be fraught with foibles and fall-backs, they believe that in the long run humanity is more likely to be better off than worse off.

No philosopher within the field of business ethics has worked harder to get both theorists and managers to take the moral imagination seriously than Patricia Werhane. For that reason, I want to take a few moments and revisit her paper "Moral Imagination and the Search for Ethical Decision Making in Management."¹⁸ Werhane follows David Hume and Adam Smith in her desire to provide some sort of explanation of how humans grow to care about persons other than themselves. These philosophers theorized from a position that assumed humans are fundamentally social creatures. However, their belief that humans are social creatures is only

¹⁸ Social Responsibility, Vol. 21 (1995): 1–30.

the beginning of moral inquiry, not its end. Their studies of ethics center on moral psychology because that is the mechanism through which they believe the fundamentally social character of humanity gets refined and subsequently expressed in the achievement of community.

Sympathy, according to Werhane, is the linchpin of Smith's moral theory. She characterizes this attitude as the result of an active imagination reaching out and latching on to the lives and experiences of others; it is a moral intuition of sorts. She is careful not to overstate the knowledge that one can gain from the moral imagination, e.g. one does not have first-hand access to other person's experience or their understanding of that experience. The moral imagination is an attitude. It reflects a desire, whether large or small, of a person to consider the experience of others in coming to their own understanding of the world. The moral imagination plays a critical role in how we form beliefs about the experience of others and how those beliefs serve to challenges and revise our own.

"Smith breaks with a rationalist tradition by linking moral judgment to moral sentiment. Moreover, it is moral imagination along with sympathy that helps to discern what society ought to approve of, thus shaping moral rules out of community rather than individual values."¹⁹ For Werhane, it is the ability for us to sympathize that is paramount when it comes to codifying some sort of guidelines that will function as the basis of a community. Following Smith and Hume, Werhane believes that a human communities flourishes where the constituents feel for their fellows. It is the moral imagination that underlies our ability to sympathize with others and, therefore, it is the moral imagination that for Werhane is the iconic expression of our social natures.

But Smith's work is limited by his assumption that all of us deal with the world in the same way – through the conceptual scheme of a Scottish gentleman. So, on that assumption one can more easily project and sympathize with another person or make self-evaluations, and actually be correct a good deal of the time. But each of us functions from a set of conceptual schemes, schemes which most of us are only vaguely aware. And these schemes are not identical to those through which others experience. Smith's analysis introduces the notion of moral imagination, but it cannot take into account how one sympathizes with others whose view of the world is not that of a Scottish gentleman, nor can it account for how it is we can reshape our own conceptual schemes.²⁰

In this passage, Werhane introduces the problem of difference due to the diversity of human communities and frames it as a limit on the abilities of the moral imagination. She considers the possibility that moral conclusions supposedly based on sympathy among people who are identical may not be very sympathetic at all but, rather, uncritical assumptions based on perceptions of sameness. Therefore, sympathetic intuitions resulting from an active moral imagination cannot be the only basis of community and civil agreement. For Werhane, sympathetic moral intuitions must be domesticated by some proxy for rationality before they can be of use

¹⁹ Patricia H. Werhane, "Moral Imagination and the Search for Ethical Decision-Making in Management," *Business Ethics Quarterly* (Special Issue No. 1), 82.

²⁰ Werhane, 82.

in the process of social construction. It is precisely this domestication that I think Rorty is criticizing when he states: "I think of moral imagination not as a supplement to moral theory and moral reasoning skills, but as pretty much all you need."

In her theory development, Werhane mixes the openness the pragmatist tradition with the tradition of metaphysics. Her unique style and mixture satisfy those most concerned with innovation and also gives a nod to those most concerned with tradition. Building on the Scottish Enlightenment, Werhane developed a critical philosophy, where the imagination functions within rationality as a means for innovation. To repeat an earlier metaphor, Werhane walks backward into the future. Rorty, on the other, walked to the future facing forward. He believed he could have the imagination without rationality. His version of a theory of moral progress was hopeful but, at the end of his career, it lacks that discipline that was characteristic of his early and mid-career writings. One is left with a sneaking suspicion that his reliance on the concept of the moral imagination was facile and that his so-called "quietest" dogmatism and its centering of the notion of the imagination facile.

Foucault and the Three-Dimensions of Morality: From Enlightenment to Critique

Kant...describes Enlightenment as the moment when humanity is going to put its own reason to use, without subjecting itself to authority; now, it is precisely at this moment that the critique is necessary, since its role is that of defining the conditions under which the use of reason is legitimate in order to determine what can be known, what must be done, and what may be hoped.²¹

Michel Foucault expands on the notions and possibilities of moral progress by reinvigorating the modern critical tradition that has its genealogical roots in Immanuel Kant. This is most clearly exhibited in his article "What is Enlightenment?" which is a direct allusion to Kant's earlier work of the same title. I find Foucault's essay on Kant useful for the way it provides an alternate characterization of modernity, one that is particularly useful to me in my desire to change the conversation.

I have privileged Foucault's inquiry into the notion of Enlightenment because he is roughly our contemporary and, therefore, has the advantage of having the benefit of a couple of hundred years of social, cultural, political, and military history. Where Kant is trying to understand how something novel could change the way we experience the world, Foucault is trying to understand how something that was *supposed* to be new never really materialized. If Kant is asking "What difference does today make with respect to yesterday?" Foucault is asking "Why is today no different

²¹ Michel Foucault, "What is Enlightenment?" in *Essential Works of Foucault 1954–1984: Ethics, Subjectivity, and Truth* (New York: New Press, 1997), 303–304. I have also been deeply influenced by African-American philosopher Frank Kirkland's very insightful contribution to this critical genealogy, "Enslavement, Moral Suasion, and Struggles for Recognition: Fredrick Douglas's Answer to the Question – What Is Enlightenment?" in *Fredrick Douglas: A Critical Reader* (Malden: Blackwell, 1999), 242–310.

from yesterday?” Both theorists were seeking to understand progressive change, but from a different place of enunciation and with different hopes. Kant hoped that he could be the impetus of progress by exhorting the masses to move ahead. Foucault hoped that we could better reconcile our espoused ideals with our own histories. Kant’s perspective was that of a philosopher or theologian, Foucault’s was that of a historian.

The question “What is Enlightenment?” and the question “What is Moral Progress?” are two sides of the same coin. I will be suggesting that moral progress is served by the tension between two perspectives on Enlightenment: the “speculative” of Kant and the “historical” of Foucault.²² The challenge of identifying and analyzing our own moral problems – of “problematizing” the present, to use Foucault’s jargon – is simply our attempt to represent the overlapping portions of these two perspectives. So, in the mode of classic dialectics, I am claiming that when it comes to moral progress the struggle is the thing. Critique, then, is the theoretical offspring of this process.²³

In his interpretation of Kant’s essay on Enlightenment, Foucault makes three insights into the relationship between social thought and morality: enlightenment is an **activity**, enlightenment requires **courage**, and enlightenment is **experimental**. It is important to note that these insights could easily be attributed to Kant himself. I will be calling them Foucault’s because it is through his work that these organizational tropes in Kant text became clear. In the remainder of this section, then, I will describe each of these tropes in turn and then provide a larger reflection on the effect they have on the theory of moral progress expounded by Rorty.

Enlightenment Is an Activity

Thinking back on Kant’s text, I wonder whether we might not think of the age of modernity as an attitude rather than as a period of history. And by “attitude,” I mean a mode of relating to contemporary reality; a voluntary choice made by certain people; in the end, a way of thinking and feeling; a way, too, of acting and behaving that at one and the same time marks a relation of belonging and *presents itself as a task*. No doubt, a bit like what the Greeks called an ethos.²⁴

In this passage, Foucault is trying to account not only for the energy that infused Enlightenment thinkers and their systematic forays but also the healthy self-doubt that many of them had toward their own thought. If it was David Hume that Kant credits for shaking him out of his dogmatic slumber, it was surely Kant whose

²² Surely, there is a speculative dimension to historical understanding and also a historical basis for any speculation. But, for the purposes of this paper, it will be sufficient to overstate the separation of these two outlooks if only to emphasize their relationship.

²³ For more on the social benefits of critique, see David Couzens Hoy, *Critical Resistance: from Poststructuralism to Post-Critique* (Cambridge: MIT Press, 2004).

²⁴ Foucault, 309–310. Emphasis mine.

literary bolt of lightning functioned to wake up a populace, a region, a nation, and an idea called the “West.” When reading through his corpus one can tell that Kant was dissatisfied with the philosophical tradition and with the general malaise that he perceived to be covering his cultural contemporaries. Unlike other philosophers, though, Kant had grown impatient with mere expression of dissatisfaction and, therefore, made his theoretical consideration of the notion of the Enlightenment a strong critique of its benefactors.

Consider the following passage from Kant’s essay:

Laziness and cowardice are the reasons why such a large proportion of men, even when nature has long emancipated them from alien guidance (naturaliter maiorennes), nevertheless gladly remain immature for life. For the same reasons, it is all too easy for others to set themselves up as their guardians. It is so convenient to be immature! If I have a book to have understanding in place of me, a spiritual adviser to have a conscience for me, a doctor to judge my diet for me, and so on, I need not make any efforts at all. I need not think, so long as I can pay; others will soon enough take the tiresome job over for me... Thus, it is difficult for each separate individual to work his way out of the immaturity which has become almost second nature to him. He has even grown fond of it and is really incapable for the time being of using his own understanding, because he was never allowed to make the attempt. Dogmas and formulas, those mechanical instruments for rational use (or rather misuse) of his natural endowments, are the ball and chain of his permanent immaturity. And if anyone did throw them off, he would still be uncertain about jumping over even the narrowest of trenches, for he would be unaccustomed to free movement of this kind. Thus only a few, by cultivating their own minds, have succeeded in freeing themselves from immaturity and in continuing boldly on their way.²⁵

Here we find the modern philosopher in his most Socratic voice. Kant is clearly lamenting a lack of cultural leadership and political vision. He is also explaining how the new creature comforts available to the newly expanding middle-class have had the effect of satisfying their simple daily needs by simultaneously snuffing out any desire for additional improvement in their notions of what it means to be human and to express humanity. For Kant, and eventually Foucault, the problem with dissatisfaction is that, under certain material conditions, people can be convinced to live with it and even to prefer it. This is the peculiar problematic of business ethics, which is more about the success and excesses of capitalism rather than its perceived failings.

Foucault interprets Kant’s expression of dissatisfaction with his contemporaries as the Enlightenment attitude. The Enlightenment attitude is one where a person, in this case Kant, becomes dissatisfied with the mere expression of dissatisfaction concerning their political and cultural institutions. The dissatisfaction must manifest itself in some sort of action or attempt at action to be of virtue in this schema.²⁶ This is a reframing of the narrative of modern philosophy because it does not follow

²⁵ Kant, “What is Enlightenment?” <http://philosophy.eserver.org/kant/what-is-enlightenment.txt>, Emphasis mine.

²⁶ On the emancipatory function of criticism, see Judith Butler’s “What is Critique? An Essay on Foucault’s Virtue,” in the *Judith Butler Reader*, ed. Sara Salih (Malden: Blackwell, 2004) and Fredrick Jameson’s “Metacommentary” in *The Ideologies of Theory, Essays 1971–1986: Volume 1 Situations of Theory* (Minneapolis: University of Minnesota Press, 1988).

either the victory of Reason in the realm of culture or find comfort in an overly pessimistic description of the failure of modernity.

Kant is charting a middle path, one that sees the undeniable success of modern technology and free market economic institutions as the philosophical problem of the Enlightenment.²⁷ Foucault, in contrast, is trying to reconcile the espoused ideals of the Enlightenment with 200 years of European Imperial history, a history where he finds the Jewish Holocaust, the rise of totalitarianism around the world, Christian justifications for the continued enslavement and then lynching of blacks in America, violent homophobia, Hiroshima and nuclear proliferation, capital punishment and torture by Democratic governments, African Apartheid, etc.... Both philosophers see the Enlightenment as a problem, but they “problematize” the Enlightenment differently. If one way to characterize the Enlightenment is as an attitude, scholars must not assume that the attitude expressed by different people in different places and at different times is the same. Further, as a motivation for critique, Foucault is not seeking an end to the dissatisfactions of modernity because he recognizes that it could be the wellspring of moral action if understood. In this way, he is like Kant in that he sees bourgeois satisfaction as the enemy of moral progress.

Enlightened Morality Needs Courage

From the very first paragraph, [Kant] notes that man himself is responsible for his immature status. Thus, it has to be supposed that he will be able to escape from it only by a change that he himself will bring about in himself... What, then, is this instruction? Aude sapere: “dare to know,” “have the courage, the audacity, to know.” Thus, Enlightenment must be considered both as a process in which men participate collectively and as an act of courage to be accomplished personally. Men are at once elements and agents of a single process. They may be actors in the process to the extent that they participate in it; and the process occurs to the extent that men decide to be its voluntary actors.²⁸

It is a truism to say that any age is defined by its exceptional women and men. For Kant and Foucault, though, part of what makes the person exceptional is some show of intellectual courage. Kant is re-introducing the heroic code to the West but in a new place. There is an interesting epistemological update here being executed by Kant and, subsequently, Foucault. In the first sentence of *The Metaphysics*, Aristotle proclaimed, “Man by nature desires to know.” Kant and Foucault would edit Aristotle’s basic formulation by adding one significant word: ‘Some men by nature desire to know.’ In fact, based on the swift anthropology Kant provides of his contemporaries, it is not even the average man that desires to know. It might not be an overstatement of his position to say that in modernity the absence of thought, the ability to pay for somebody else to think for you, had even become a symbol of an

²⁷ See Robert Pippin’s *Modernism as a Philosophical Problem: On the Dissatisfactions of the European High Culture*, 2nd ed. (Malden: Blackwell, 1999).

²⁸ Foucault, 306.

elevated status. On this description, then, it is easy to see why Kant would include the desire for knowledge as a heroic virtue (admittedly, some ancient Greeks may have found this characterization of heroism peculiar). Where knowledge is a virtue, there thought is an achievement.

Enlightened morality does not just need courage but specifically the “courage to know.” In Kant, there is a direct relationship between knowledge and the kind of morality he would want, hence the connection between critique and moral progress. Critique is a dialectical expression of the struggle in the mind between the achievements of modernity and the attitude of countermodernity. To be clear, critique is not merely an attitude of simple irony, e.g. of taking the opposite position. Using the language of pragmatism, critique is an ironic attachment to the knowledge one has of her or his experiences and the traditions of knowledge she or he has received. Here the irony is complex. Critique does not claim that reality is the opposite of experience but that there could be understandings of any experience other than the “accepted” knowledge the official promulgators would have you to believe. Moral progress begins, then, with a healthy but ironic attachment to conventional wisdom, and also the individual courage to explore other ways of making sense of the world.²⁹

Enlightened Morality Is Experimental

Yet if we are not to settle for the affirmation or the empty dream of freedom, it seems to me that this historico-critical attitude must also be an experimental one. I mean that this work done on the limits of ourselves must, on the one hand, open up a realm of historical inquiry and, on the other, put itself to the test of reality, of contemporary reality, both to grasp the points where change is possible and desirable, and to determine the precise form this change should take. This means that the historical ontology of ourselves must turn away from all projects that claim to be global or radical.³⁰

Enlightenment is not simply a method of doubt. For Foucault, those with the attitude of Enlightenment are as dissatisfied with doubt as they are with overconfidence. Following Kant, critique is not just about beliefs but also about how those beliefs are transformed into action. There is a particular kind of action that Kant and Foucault are seeking. The action must be one of enlivening alternatives. What I mean by this is that I take Kant’s and Foucault’s arguments concerning Enlightenment to be both theoretical and practical. The theoretical insight concerns the methods and means for revising our web of beliefs in order to incorporate novel ideas and

²⁹To be critical in this way does not guarantee that you will not make moral mistakes. But that is no reason not to forge ahead. For critiques of this position see Mark Lilla’s *The Reckless Mind: Intellectuals and Politics* (New York: New York Review Books, 2001), and Richard Wolin’s *The Seduction of Unreason: The Intellectual Romance with Fascism From Nietzsche to Postmodernism* (Princeton: Princeton University Press, 2004). The classic statement is Peter Sloterdijk’s *Critique of Cynical Reason* (Minneapolis: University of Minnesota Press, 1987).

³⁰Foucault, 316. It is important to point out the “Global” here is a synonym for universal or absolute. This is not a critique of contemporary theories of globalization.

understandings. Indeed, enlightened people have an insatiable appetite for novelty. But, enlightened people must also be the conduit by which these ideas become manifest in the world. Not because novelty is inherently good or progressive but because it is only by trying out and trying on new ideas that we can determine which ideas are worth keeping and which to toss away.

I want to augment Foucault's notion of this experimental attitude by saying that not only must new ideas be subjected to the crucible of experience but also the ideas that are received or considered traditional and, therefore, assumed to be valuable. Every generation, indeed every person, must reassess received values.³¹ Kant was frustrated by the lack of innovation in his society due to the blind adherence of his contemporaries to custom and tradition. Foucault suggested that we focus more on the limits of our knowledge.

The point, in brief, is to transform the critique conducted in the form of necessary limitations into a practical critique that takes the form of a possible crossing over. This entails an obvious consequence: that criticism is no longer going to be practiced in the search for formal structures with universal value but, rather, as a historical investigation into the events that have led us to constitute ourselves and to recognize ourselves as subjects of what we are doing, thinking, saying. This philosophical ethos may be characterized as a limit-attitude. We are not talking about a gesture of rejection. We have to move beyond the outside-inside alternative; we have to be at the frontiers. Criticism indeed consists of analyzing and reflecting upon limits. But if the Kantian question was that of knowing what limits knowledge must renounce exceeding, it seems to me that the critical question today must be turned back into a positive one: In what is given to us as universal, necessary, obligatory what place is occupied by whatever is singular, contingent, and the product of arbitrary constraints?³²

Foucault's suggestion is that we apply outward pressure on the limits of our knowledge by re-examining what it is that we think we already know and hold as foundation. Critical theories or philosophies that have the attributes of action, courage, and experimentalism. It is through the theoretical method of critical philosophy, critical thought, or simply critique, that we enter into philosophy as an ethical global discourse, one that exerts pressure on the limits of what can be thought by de-centering and re-evaluating what we think we already know. It is also through the process of de-centering our knowledge that we learn how to incorporate novelty and, ultimately, difference.

³¹ Consider T.S. Eliot on "tradition" versus "repetition" in "Tradition and Individual Talent", <http://xroads.virginia.edu/~DRBR/eliot.txt>:

Yet if the only form of tradition, of handing down, consisted in following the ways of the immediate generation before us in a blind or timid adherence to its successes, 'tradition' should positively be discouraged. We have seen many such simple currents soon lost in the sand; and novelty is better than repetition. Tradition is a matter of much wider significance. It cannot be inherited, and if you want it you must obtain it by great labour.

³² Foucault, 315.

Some Pedagogical Implications of Critical Philosophy and Thought

Why do we need theories of moral progress? Theories of moral progress serve as one basis for political and cultural training that assist, many times accidentally, in the procurement of moral progress. Theorists of moral progress believe that progress cannot happen unless someone is thinking about change. For them, there is an inherent link between ‘what we think we can be’ and ‘who we think we are’ and between conceivability and possibility. This thread can easily be detected by those who are familiar with the Western tradition that begins with Plato’s *Republic* and Aristotle’s *The Statesman*, through Herodotus’ *Histories* and Augustine’s *City of God*, to Machiavelli’s *The Prince* and Rousseau’s *Emile*, and also DuBois’ *Souls of Black Folk*. While my list is not meant to be exhaustive it is illustrative of the simple fact that many of the canonical texts in our philosophical tradition are chiefly concerned with the proper training for leadership.

Leadership and Limits

When it comes to the procurement of moral progress, theory and praxis find their nexus in human action that is the result of critical thought. Critical thought, remember, is thought that is active, courageous, and experimental. Now I want to address and make clear how Foucault supersedes Kant’s understanding of critique and, as a result, provides the key to the portal connecting moral theory and practice in the service of progress. Remember that for Foucault the attitude of modernity is characterized as a stance we must have toward the limits of our knowledge: “This philosophical ethos may be characterized as a limit-attitude.” But what does this actually mean?

Leaders need to be obsessed with limits so that they can learn how to extend those that need extending and also negotiate those that need respecting. At first glance extending and respecting limits may seem like the same process, but there is an important difference between the two. Extending limits is about how we increase the volume of our moral universe whereas respecting limits is about how we avoid making our extension a transgression. But, one way or another, we have to theorize ethical limits in ways that are not simply jurisprudential. Therefore, the limit-attitude is about how contemplation of the limits of knowledge and the contemplation at the limits of normalcy and acceptance assist with moral progress. The notion of a virtuous limit is similar to Salman Rushdie’s “frontier” in the following passage:

The frontier is a wake-up call. At the frontier we can’t avoid the truth; the comforting layers of the quotidian, which insulates us against the world’s harsher realities, are stripped away and, wide-eyed in the hard fluorescent light of the frontier’s windowless halls, we see things are they really are. The frontier is the physical proof of the human races divided self...³³

³³ Salman Rushdie, “Step Across This Line” in *Step Across This Line: Collected Non-Fiction 1992–2002* (New York: Modern Library), 353.

In other words, there is something special about limits, borders, and frontiers that need to be mined for ethical reasons. And those that seek to transcend limits must find a way to live at the borders and face the frontier.

The pedagogical challenge for leadership training, then, is to create concrete practices that put humans into situations where they experience and then utilize this limit-attitude. All of us need to be de-centered from time to time. This means that while it is often easy and desirous for us to remain within established identity-based enclaves, we grow ethically when we find ways to get ourselves outside of these comfort zones. I believe that the same mindset that allows one to transcend intellectual situations is also a prime resource for one to find innovative practical solutions. Leaders must be critical thinkers.

Curriculum Considerations

There are three kinds of pedagogical activities that I think will cultivate a limit-attitude in our future and existing leaders: clinical analysis, literary analysis, and acting. All of these activities concern issues of character and, therefore, provide a strong intellectual platform for leadership development. While most programs in management and leadership capture and deploy the technical skills needed to perform a function in an organization, they fall flat where there needs to be value driven decisions about when and where to deploy functional knowledge, let alone how to improve it. It is my belief that if existing training programs were augmented by these more “existential” exercises, future managers would become better leaders.

By clinical analysis I mean that the beginning of leadership studies should include a psychoanalytic evaluation with regularly scheduled follow-ups and check-ins. This is important because these visits to the clinician serve to make managers more thoughtful about themselves and the ways that they affect and are affected by their environment.

By being psychoanalyzed potential leaders will have a clearer sense of their blind spots and places for perspectival improvement. Many programs give the Meyers-Brigg survey, but this is far too general a classification scheme to be of much long-term use; e.g. it is just a start. The depth that can be reached by a clinician is much more personalized and provides more specific information about the motivations, assumptions, and chauvinisms of managers.

It may seem curious to some readers that I would put the analysis of literature in the leadership curriculum, but poets and writers have always plumbed the depths of the human condition and their works have yielded important insights into the human psyche. The themes of hubris, evil, treachery, love, deception, and honor have motivated writers and dramatists throughout history, and there is no reason that we cannot learn from these important texts. Further, literary criticism as its own separate literature is important because it helps us to form good ideas about how to read and learn from the texts. Literature, then, should play as central a role in leadership training as it does in the liberal arts.

The actual act of acting creates in managers practical wisdom, whereby they will have the ability to lead in situations they have never encountered because acting demands that one put oneself to the side and sincerely attempt to become someone else. Managers will be able to think through “difference”, e.g. what it means to be somebody else in circumstances other than their own. And it is by thinking through difference that managers will come to understand diversity. Leaders value diversity for both ethical and strategic reasons because it is through diversity that leaders become ethically three-dimensional and also more innovative in their management practices.

Finally, there is a specific logic for teaching these techniques in the order I have given. I began this paper with a consideration of the role of the moral imagination in Richard Rorty and Patricia Werhane. My conclusion at the end of the first section was that critical thought was more fundamental to moral development than the moral imagination. I overstated my position to emphasize the role of critical thought as outlined by Kant and Foucault. The moral imagination becomes increasingly important only after critical thought has been inaugurated in the subject. My pedagogical sequence assumes this in its progression: psychoanalysis makes one’s thoughts more critical, literary criticism activates the moral imagination, and drama enacts and embodies the ideas that result from the cultivation of the moral imagination through literature. In the end, it is the moral imagination that spans the distance between management and leadership. The moral imagination is activated by critical modes of thought.

Conclusion

How hard a thing is life to the lowly, and yet how human and real! And all this life and love and strife and failure – is it the twilight of nightfall or the flush of some faint-dawning day?
W.E.B. DuBois, “Of the meaning of progress”³⁴

I have argued for a conception of critical philosophy that could serve as a reliable mechanism for the conceptualization and procurement of moral progress. Critical philosophy is relevant to applied ethics when it serves to create the conditions under which diverse populations are not just subjects but also citizens in our shared moral universe. It is a product of the spiritual strivings of a diverse human family, many times represented as those who would seek a change to the institutions and values represented by the status quo precisely because they occupy the margins and, for that reason live a valuable limit-experience. The moral imagination, conceived along the lines of Patricia Werhane, serves as a mechanism for incorporating those perspectives. Her example of theory development supports the belief that philosophy – especially in the speculative mode – is a better intellectual path for answering these particular existential questions than its sister disciplines and its tradition should remain an important resource as the field of business ethics seeks to innovate its methodological base.

³⁴ DuBois, 73–74.

Part II

Organizational Level Business Leadership

Chapter 11

Ethical and Leadership Challenges by Organizational Culture Type



Daryl Koehn

Abstract Most scholars agree that organizational or corporate culture affects employee behavior and corporate performance for better or for worse. Few researchers have investigated in a systematic way corporate or organizational culture types and their relationship to ethics and leadership. In this chapter, I draw upon one well-known systematic approach to culture assessment with a view to identifying the different ethical and leadership challenges faced by leaders within corporations characterized by various types of culture. The Organizational Culture Assessment Instrument (OCAI-Online, <https://www.ocai-online.com/about-us>, 2019) has been widely used by corporations and consultants to identify four dominant organizational culture types. Working through each of OCAI's four dominant types, I identify distinctive ethical strengths and weaknesses and leadership opportunities and challenges arising in connection with each cultural type. Part 1 provides a brief overview of the four culture types in the OCAI 2 × 2 matrix. Part 2 delves more deeply into each culture type and specifies the associated ethical and leadership challenges arising in each type of culture. Part 3 identifies some limitations with the OCAI approach, limitations that point to areas for future research.

Keywords Corporate/organizational culture types · Organizational culture assessment instrument · Ethical and leadership challenges

Most scholars agree that organizational or corporate culture affects employee behavior and corporate performance for better or for worse. To mention but a few effects: Corporate culture is positively correlated with levels of organizational commitment (Boom and Arumugam 2006). Corporate culture affects organizational performance and efficacy (Kotter and Heskett 1992) and has the potential to impact a wide array of individual and organizational outcomes and traits such as loyalty and job satisfaction (Lund 2003; Li 2004; Chang and Lee 2007). It affects total quality initiatives (Al-Khalifa and Aspinwall 2001), IT governance (Rusu et al.

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2017), e-commerce adoption (Senarathna et al. 2014), CEO turnover (Fiordelisi and Ricci 2014) and corporate reporting on sustainability (Soares et al. 2018). Organizational culture also appears to mediate the relationship between leadership styles and corporate performance (Ogbonna and Harris 2000) and to moderate the relation between leadership and a firm's knowledge management practices (Nguyen and Mohamed 2011).

Yet, while many articles touch upon the importance and effects of corporate culture in general, fewer researchers have investigated in a systematic way corporate or organizational culture types and their relationship to ethics and leadership. In this chapter, I draw upon one well known systematic approach to culture assessment with a view to identifying the different ethical and leadership challenges faced by leaders within corporations characterized by various types of culture. The Organizational Culture Assessment Instrument (OCAI-Online 2019) has been widely used by corporations and consultants to identify four dominant organizational culture types.

Working through each of OCAI's four dominant types, I identify distinctive ethical strengths and weaknesses and leadership opportunities and challenges arising in connection with each cultural type. Part 1 provides a brief overview of the four culture types in the OCAI 2×2 matrix. Part 2 delves more deeply into each culture type and specifies the associated ethical and leadership challenges arising in each type of culture. Part 3 identifies some limitations with the OCAI approach, limitations that point to areas for future research.

Part One: OCAI and Its Foundations

The OCAI employs a competing values framework (OCAI-Online 2019). In particular, the theory behind OCAI presupposes the existence of two competing, independent major values, which are characterized as polarities within a corporation's self-understanding. The two value polarities are: (1) Internal focus with integration versus external focus with differentiation; and (2) stability and control vs. flexibility and freedom to act. Some firms are more inwardly focused when it comes to developing their marketing approach and strategies, while others are more externally focused. In a similar vein, some firms value stability and control more than flexibility and vice versa. More inwardly focused cultures concentrate on what is important for members of the firm, while outwardly focused cultures attend more to what matters to the outside world, clients, and the market (OCAI 2019; Cameron and Quinn 1999).

OCAI depicts this framework as a 2×2 matrix with four quadrants. While no company can be entirely internally focused and indifferent to market pressures or exclusively concerned with stability to the point of ignoring flexibility entirely, firms typically skew toward one quadrant or another (Fig. 11.1).

Employees taking the assessment instrument work through two parts of the OCAI. The first set of questions serves to establish what the employee's firm's

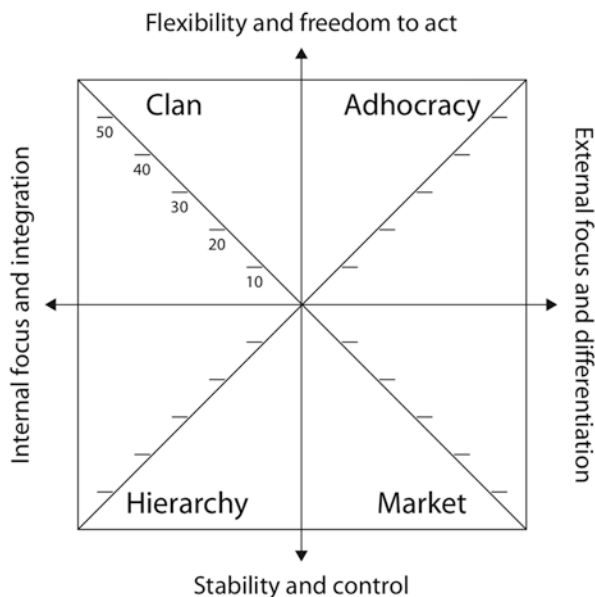


Fig. 11.1 OCAI-Online (2019)

dominant culture is. Employees indicate how they perceive their firm's primary characteristics, leadership style, employee management, organizational glue, strategy, and criteria for success. The second set of questions are the same, but this time employees assign weights to various options to ascertain in which type of culture the employee would prefer to work. The instrument results are then presented by OCAI as an overlay:

In this sample case (Fig. 11.2), the employee's firm's *actual* culture skews toward the upper left quadrant, indicating that this culture is inward looking with a fair amount of flexibility given to employees to set their own agenda, to take initiative, etc. in light of the employee group's understanding of the firm's internal or core values and mission. Although this hypothetical employee works in a "clan" culture (more on the exact characteristics of each quadrant in Part Two), her *preferred* culture (shown in blue) would be a "market" type skewed toward stability (lower right quadrant). In other words, she would like to work in a more formally organized, stable culture that takes its cues from the outside world of market trends, competitor behavior, and so forth. While her actual and preferred cultures have some overlapping values, the mismatch in her case is rather marked. The OCAI theory is that leadership needs to attend to existence of such mismatches because, if large numbers of employees wish they were working elsewhere, a host of problems can arise.

OCAI defines "culture" as

[a] pattern of shared basic assumptions about how to adapt, survive and thrive. These assumptions get reflected in leadership styles and in corporate organization. Culture will also appear in corporate "war stories" and rituals and in corporate processes and even in

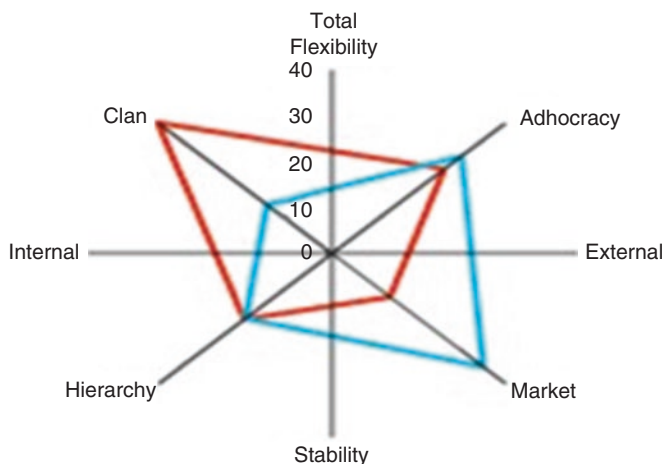


Fig. 11.2 OCAI-Online (2019)

corporate incentives and promotions schemes. Culture so understood often influences people's behavior in ways of which they are not aware (OCAI-Online 2019).

Every company, regardless of its skew, will have its own set of rituals, war stories, and procedures. However, these will reflect that culture's dominant self-understanding. Rituals within a clan culture will be designed to reflect and reinforce employees' sense that they all belong to one family or clan, while a market culture's rituals are more likely to recognize employees who have shown themselves to be adept in hitting a performance goal tied to a market metric. On this view, to speak of "rituals" in the abstract is unhelpful because the notion is always refracted through the lens of a dominant cultural type. So, too, will the notion of leadership will be refracted through a cultural lens. Within the OCAI framework, there is no such thing as good leadership in the abstract. Good leadership insofar as it is effective is construed differently in each culture, so a good leader is, at a minimum, a leader who "fits" the dominant culture type in which he or she is working.

To understand ethical and leadership challenges arising in each sector, one must first grasp the nature of each quadrant within the OCAI model. I begin with the possibilities and challenges associated with internally focused cultures.

Type 1: Clan Culture

OCAI specifies the dominant values, leader type, key practices, and underlying operative theory of corporate efficacy for each culture type.

As can be seen from the matrix (Fig. 11.1), clan cultures are primarily internally focused. Zappos has historically had a clan culture. Employees strongly identify with their Zappos team, a "clan" that is held together by a shared commitment to

Zappos values, which many can recite by heart (Zappos 2010). The teams operate informally and are encouraged to take action in light of what their values dictate that they should do. The firm is a kind of family (Zappos 2010). In accordance with this metaphor, the leader is seen as a parental figure or a quasi-peer mentor.

Clan cultures believe that they will succeed if and when employees are highly committed to the firm's values and mission. Such cultures put a premium on communication because strategies, marketing and other corporate activities evolve somewhat spontaneously as the group talks through problems and opportunities it is facing. Communication is key because it forges and reinforces the solidarity binding together members of the clan. Since employees are empowered to initiate action without having to wait for top-down instruction from a controlling leader, clan cultures prefer leaders who are more mentors than commanders-in-chief. Clan cultures stress employee development as well. This type of culture needs employees to have a deep and rich understanding of its values—what these values do and not mean—and to exercise responsible judgment in the choices they make. Consequently, employee training is focused less upon compliance with formal corporate policies and more upon refining employee understanding of corporate values and fostering discretion.

Type 2: Hierarchy Culture

Like clan cultures, hierarchy cultures are inwardly focused. Their strategy and marketing is largely determined by their internal values and mission statements. Catholic universities typically have hierarchy cultures. Their values are not determined by the shifting preferences of the market but by relatively static dogmatic commitments. This kind of culture is concerned with integrating its values throughout its operations, products, and processes.

Hierarchy cultures are highly formalized and structured. Policies are well-developed, and human resources emphasizes and monitors compliance with various rules. Regularity and smoothness of processes are valued above spontaneity and innovation. General Electric with its extensive policies, elaborate in-house training programs, and preference for hiring military veterans accustomed to a chain of command is another good example of a hierarchy culture. Hierarchies see themselves as successful if and when costs are contained and outcomes are reliably and predictably achieved.

In this type of culture, leaders co-ordinate and monitor processes in a top-down manner. Leaders may be very controlling, given that the culture places a premium on stable and predictable behaviors. Leaders may see control as necessary in order to contain and manage costs and to ensure that processes are efficient. Total quality management and other forms of error detection and process management have a natural home in hierarchy cultures. Uniformity, too, is prized insofar as standardized processes can be more easily monitored and can be cheaper.

Type 3: Adhocracy Culture

Adhocracy culture appears in the upper right-hand quadrant. Unlike clan cultures, adhocracies are outwardly focused on customer needs, market demands and trends, and changing consumer preferences. Like clan cultures, adhocracies encourage employees to use their own judgment to identify and resolve problems. Innovation, creativity, spontaneity, and dynamism are highly valued in these cultures. The Brazilian firm Semco Partners exhibits many features of an adhocracy. Employees set their own hours in light of what they and their colleagues need to accomplish. Some weeks employees may come in on Sundays; other times they may have a four-day work week. They establish their own pay using market data and feedback from their internal peers. Employees form temporary groups to address perceived problems or issues, but these adhocratic groups typically lack the permanence of clan teams.

Adhocracies define success in terms of their ability to invent and deliver new products and services. Semco Partners has repeatedly reinvented itself, moving from supplying the shipbuilding industry with agitators in the 1980s to a 2019 diversified business that makes cooling towers, manages large facilities like airports, consults on environmental issues, provides internet services and manages properties. This reinvention grew out of a spontaneous effort by three employees in the early 1980s to set up a nucleus of innovation that identifies potential new opportunities for Semco Partners. Success in adhocracies grows out of individual initiative, so this type of culture valorizes creativity and entrepreneurship and the ability to move quickly to respond to market shifts and to capitalize upon market opportunities.

Adhocracy leaders style themselves as innovators and visionaries. They usually are not very hands-on leaders. Ricardo Semler, CEO of Semco Partners, has explicitly rejected the command and control role favored by leaders in hierarchies. Instead, he devotes himself to developing innovative forms of management and to coming up with teaching and hiring processes that encourage and respect individual thinking and initiative. Some of these leadership experiments work; others do not. But experimentation itself is seen as valuable in this type of culture, which recognizes that employees must be risk-takers and that, by definition, some experiments will fail.

Type 4: Market Culture

Unlike adhocracies, market cultures do not favor risky, exploratory, or spontaneous experiments. Instead, they want to get things done successfully. And, unlike hierarchy and clan cultures, market cultures are extremely sensitive to external developments and feedback. Zynga, the online games company, does extensive and continuous market testing of game ideas (Chang 2011). To keep people focused on goals, market cultures often encourage in-house competition and reward high

performers who achieve performance measures tied to market measures. This culture is acutely sensitive to stock price and takes increasing market penetration and an increasing stock price as indicators of success. This type of firm is open to forming partnerships or alliances with vendors and other parties if doing so enables the firm to be more in the loop when it comes to market trends and shifts.

Market culture leaders are driven and quite competitive producers. They want to win and to do so in a way that preserves the organization and its reputation. They often are very demanding. Setting high expectations for themselves, they expect others to strive equally strenuously to achieve goal-driven results. Since profits are necessary to keep the company alive, these leaders emphasize and monitor profit margins and overall profitability of the firm. Products that are not high earners may be quickly dropped in favor of newer ones that are perceived as more likely to be profitable. Increasing market share is valued as well, in part because market dominance can allow the firm to raise its prices, thereby enhancing profits.

This chart (Fig. 11.3) summarizes key features of the four culture types:

Culture Type	Dominant Values	Leader Type	Operative Theory
CLAN	Internal focus & flexibility	Parental figure; mentor; team builder	Success stems from high commitment and sound family/team values and consists in caring for people and meeting customer needs.
HIERARCHY	Internal focus & stability	Organizer; coordinator; monitor	Success stems from good organization and policies and consists in regularly achieving desired outcomes.
ADHOCRACY	External focus & flexibility	Innovator; entrepreneur	Success stems from individual experimentation and consists in continually learning and offering new products and services
MARKET	External focus & stability	Producer; competitor; hard-driver	Success stems from being results-driven and consists in meeting demanding performance goals, solid profits and ever greater market penetration.

Fig. 11.3 Values, Leader Type, and Operative Theory by Culture Type

Part Two: Ethical and Leadership Challenges by OCAI Type

Having sketched the key dimensions of various culture types, I turn now to an analysis of ethical and leadership challenges posed by each cultural type.

Type 1: Clan Culture

Clan cultures have several ethical strengths. First, although firms generally will need some formal rules and contracts (e.g., contracts of employment), rules never cover every exigency that a firm will confront. Suppose that in a given year some group has had higher sales because its market sector outperformed other sectors. Teams can appeal to shared understandings of fairness or kindness or of what it means not to be a jerk when trying to resolve a perceived fairness issue with compensation payouts during the period in question.

In addition, various human rights and freedoms will resonate within a clan culture. Such cultures would tend to support the right to associate (a clan is an association, after all) and to speak and think freely. Just as each member of the family is an integral part of that unit, so, too, every employee's dignity and freedom matters within a clan culture's teams. This commitment to honor each member of the team constitutes a built-in center of resistance against any attempt by management to push through measures on the ground that "the market is forcing us to make this change". This type of culture aims at fostering quasi-fraternal, long-term relationships characterized by loyalty and respect for team members. Since cultures with these values are generally associated with loyalty and long-term commitment and high job satisfaction (Kerr and Slocum 1987), it is not surprising that those belonging to a clan culture also report high job satisfaction (Lund 2003). Employees who love their jobs may fight to keep them in their current form and fight any change that threatens the status quo, including changes and demands that are perceived as unethical.

At this same time, a clan culture's ethical strengths can easily become ethical weaknesses. Employees may slip into a "go along to get along" mentality. Unethical practices such as paying bribes to gain contracts or improperly processing customer returns can gain a foothold because a clan culture's HR function can be relatively weak. Team or clan members may not want to "out" a fellow clan member who is acting in a manner that harms the firm but perhaps helps the clan—for example, cheating that helps the team hit its targets.

Peer pressure can be quite intense in this kind of culture because clan members are expected to "take one for the team". Groupthink may be especially prevalent in clan cultures as well. And many case studies have shown the ethical danger posed by collective mindsets (Turner and Pratkanis 1998). Some models of ethical reasoning ask that agents consider whether their proposed courses of action can be consistently pursued universally (Kant and Paton 1964). Agents operating within a clan

culture may take their “universe” to extend to the boundaries of the clan and no further. In that case, the universalizability test is applied, but only to a narrow universe. Note, too, that clan members may feel encouraged and entitled to develop and ratify a group interpretation of corporate values. That interpretation may diverge considerably from the understanding of other clans within the same firm and of corporate leadership.

These ethical cultural strengths and weaknesses create leadership opportunities and challenges for the nature of leadership is essentially a form of cultural expression (Schein 1990). For example, a corporate leader might promote fairness by arguing that every sector has its ups and downs. Since the clan firm functions as one big family, everyone should share in the monetary rewards and glory when one of its sectors does well. In addition, given the clan culture’s emphasis on communication, leaders may be able to gain employee buy-in to various corporate initiatives by stimulating and attending small group discussions throughout the firm. Conversely, management may have difficulty managing teams who close ranks against those who are perceived as criticizing the team. Zappos CEO Tony Hsieh faced resistance when, using strictly defined processes, he tried to alter the firm’s culture in the ad-hoc direction of individuals taking more responsibility for fixing problems (Groth 2016).

Type 2: Hierarchy Culture

A hierarchy culture has some ethical advantages. Since it is highly structured and formalized in its organization and procedures, it has review processes in place for monitoring and rewarding good behavior while punishing problematic activity. Its numerous controls can be used to enforce accountability. Established whistleblowing protocols and due process procedures can serve to promote accountability.

However, this culture’s reliance on rules and processes may give it a false sense of security. Policies in and of themselves will never save a firm from ethically bad or incompetent managers. Policies can be subverted by managers who think themselves above the rules or who refuse to apply rules to cronies or favorites within the firm. The workplace changes continually as older employees leave and the firm hires younger men and women who have different expectations, habits, and values. Formal rules and structures need to be updated, but change can take a long time within top-down formally organized firms obsessed with stability. In addition, because they are so inwardly focused, hierarchy cultures can have trouble grasping how outsiders are viewing the firm’s choices, policies, and behavior. Committed to the goodness of its dogma, the Catholic Church has had a notoriously difficult time recognizing just how badly the numerous scandals involving pedophile priests has damaged its reputation and credibility not only within the larger community but also among its own parishioners. General Electric, another hierarchy culture, has not been able to respond quickly to shifts in the marketplace. Battered by the 2008 financial debacle, GE needed a \$3 billion investment from Warren Buffet to

stabilize the firm. It did not announce a broad restructuring plan until 2017 and has only recently begun to address the overhang from the subprime mortgage crisis (Rausch et al. 2019).

Some have argued that cultures with command and control structures come to be viewed by employees as ruthless and unpleasant work environments (Shellenbarger 2000). GE CEO Jack Welch's "rank and yank" strategy was roundly criticized as being cruel. Alienated employees may be more inclined to act in unethical ways and to snub their nose at authority if they feel under-valued or have already resolved to leave the firms.

That said, hierarchy cultures do present leadership with some opportunities. Employees in hierarchies look to the top leadership for guidance. Those in the C-suite thus have an opportunity to develop and to convey the firm's strategy and mission in a focused fashion. This vision can come from the top and does not have to be articulated through a more chaotic bottom up fashion. Nor do lower level employees need to learn about their company's plans from middle managers who may convey the corporate vision in a garbled way. Moreover, since hierarchy cultures have well-developed systems (annual reviews, compliance measures and processes, etc.), leaders have ways to monitor the extent to which the rank and file are acting to implement the corporate vision as articulated by leadership.

Again, though, the leadership opportunity is equally a challenge. Precisely because employees in hierarchies look to the top leadership for guidance, leaders may find it difficult to get lower level employees to show initiative to come up with ideas for new products and services. If new revenue sources are needed for a corporate turnaround, the firm may find itself in dire straits, and leadership may feel constrained and overwhelmed. Hierarchies are often older, larger firms, and top leadership cannot easily reinvent company culture or get employees to realize just how urgently the company needs to change. Indeed, individuals who love stability are exactly the sort who may have been drawn to this sort of culture in the first place. Nostalgic for the good old days, such employees may resent and resist calls for corporate change.

Type 3: Adhocracy Culture

In an adhocracy culture, individuals value their freedom and independent judgment. So they are inclined to feel empowered to speak out if they disagree with what their leaders or fellow employees are doing and saying. Groupthink can be less of a problem in this type of culture than in clan cultures. This culture strongly supports individual freedom of thought and a right to associate with others. Consequently, employees may have less difficulty forming alliances for support and resistance within this culture than in hierarchies or market cultures. Furthermore, some empirical studies suggest that employees in these cultures experience relatively higher job satisfaction than in hierarchy and market cultures (Lund 2003). If so, one would expect less unethical behavior attributable to employee alienation.

On the ethical downside, an “I am king/queen of my domain” mentality may militate against corporate attempts to hold employees accountable for their creative and self-initiated activities. Enron’s adhocratical culture did foster plenty of creativity—in the form of misleading accounting, risky new investment vehicles, and energy market manipulation. Enron encouraged its employees when confronted with a rule or policy to ask “Why?” This “why” quickly became “why not?” If adhocracy culture degrades into a cowboy mentality, employees may treat rules and regulators alike with scorn. When that happens, ethical integrity and compliance disappear.

Adhocratic leaders who share the creativity they seek to foster in others often enjoy their work and inspire joy in others. Leadership by example is effective; in adhocracies, leaders do not need to rely on more mechanistic “carrots and sticks” to spur employee engagement and productivity. In addition, it does not rest entirely on the shoulders of those in the C-suite to come up with strategies and tactics for responding to ever-changing market trends and demands. Leadership is at least partially distributed throughout the firm in an adhocratic culture. It is not surprising that Ricardo Semler’s stress level dropped dramatically when he migrated Semco from a hierarchical culture to a more adhocratic one. No longer did he need to worry about every detail and decision. As the firm grew dramatically, Semler’s hands off approach enabled him to devote more time to thinking about the firm’s business and ways to improve its business model. This thinking translated into stunning revenue growth. From 1982 to 2003, Semco revenues grew from \$4 million to \$212 million, an annual growth rate of 40%. The firm continues to grow with revenues projected at \$300 million for 2019 (Stillman 2016).

Leadership challenges can emerge, though, if and when the right individuals are not hired. Slacking off is an ever present danger. Moreover, experimentation per se does not guarantee success. Employees must learn from their experiments. Leadership must impose some degree of self-searching discipline on employees while maintaining respect for employee autonomy and independence. Getting that message right can be tricky. Moreover, achieving a measure of stakeholder alignment requires very clean definitions of roles and expectations (Borges 2018). Merely telling individuals that they are empowered is dangerous. What exactly are they empowered to do? In exactly which domains and in what fashion are employees free to act in accordance with their individual judgment? How these roles are specified will differ, depending on the exact circumstances of the firm. Consequently, adhocratic leaders cannot become effective simply by imitating what other adhocratic CEOs have done (Borges 2018). Given that there are relatively few highly visible adhocratic cultures from which to learn, leaders are thrown back on their own vision and creativity. Distributed leadership can help alleviate this responsibility, but it is still lonely at the adhocratic top. Such loneliness over time can impose its own stress.

Type 4: Market Culture

Firms with a market culture are typically highly responsive to customer feedback. If customers are unhappy because a product is not working or because a service did not deliver the promised results, employees (who are rated and compensated on market measures) will be inclined to address the issue. Employees are acutely aware of a larger public. Asking them to consider how others will interpret their actions or to think about what would happen if everyone else acted as they did may be effective insofar as this firm is outwardly focused. Culture directly affects a firm's perception of stakeholders (Galbreath 2010). Stakeholder theory, with its emphasis on respecting all stakeholders, may have more traction in this culture than in the inward-looking clan and hierarchy cultures, which have a proclivity to see employees as the primary and perhaps only stakeholder that really matters.

There are, however, significant ethical dangers within a market culture. Employees who are afraid of their company's demanding and hard-charging CEO can feel browbeaten and become unduly subservient to authority. If a "resistance is futile" mentality sets in, unethical choices and actions can become rife. There may be a tendency to treat market forces as "compelling" employees to act in ways that, in fact, are fully voluntary. Looking to the market rather than to individual choices and corporate values to provide ethical guidance can prove to be highly problematic. We know from long experience that robust markets exist for child pornography and slaves. So simply deferring to perceived market demands is not an ethically sound practice. Finally, employee alienation in a highly competitive ruthless culture may spur individuals to act out in a variety of ethically suspect ways.

The market-centeredness of this culture does enable leadership to focus its strategies. Market surveys and anecdotal observations provide leaders with data and can help them generate ideas about which products and services will prove profitable. The firm is not as nimble as an adhocracy, but leaders are sensitive to competitive market pressures. They can use the culture's spirit of competitiveness to rally the troops to beat the competition. In addition, these firms are data-driven. Zynga starts collecting and evaluating data immediately after it launches a new game (Zynga 2009). While no leaders are immune to delusion, a market culture's attention to data can help to rein in leaders' fantasies. The fact that a market culture is profit-focused means that employees are aware of profit margins and cash flow. Leaders may be less likely to pretend that the firm is not in financial difficulty if it experiences a substantial loss of cash flow or difficulty in servicing its debt.

As with the other three culture types, leadership opportunities and advantages come with a dark side. Since they are so competitive and driven, market culture leaders may burn out quickly. Their competitive drive can tempt them to rationalize away their ethically bad behaviors and harsh treatment of others. They may see employees merely as resources to be discarded if such employees are not sufficiently productive or fail to hit market-based targets. If the firm is public, CEOs with market-based compensation packages may think that stockholders are more important stakeholders than employees or regulators. Before taking the firm public, Zynga

founder and CEO Mark Pincus and other top leaders decided that they had bestowed too many stock options on the firm's first employees back when the firm was a startup. Having arrived at this decision, they demanded that "undeserving" employees return their unvested shares and threatened them with termination if they failed to do so (Ngak 2011). Such pronounced proshareholder behavior (Pincus and other top executives with a lot of stock stood to gain millions by this stance) may scare off more ethical and talented potential employees, making it hard for a market culture to thrive in the future.

Part Three: Issues with OCAI Framework and Directions for Future Research

Much more could be said about ethical and leadership challenges associated with each of the four OCAI culture types. But it should be clear from the above analysis that no culture type is intrinsically ethically better than others; each has its strength and weaknesses. Each produces good and bad leaders. What, though, about the OCAI approach itself? Is it sound? Or is it conceptually flawed or ethically problematic in some way?

By placing corporate culture in a determining role, OCAI's framework approach has an advantage over some other approaches to corporate culture. The OCAI framework invites theorists and practitioners alike to realize that concepts such as "team" or "strategy" or "leader" are not culturally neutral. How employees view a team will be very different in a clan and market corporate culture. Teams will be seen as quasi-permanent (and even a bit sacred) families in a clan culture, while market cultures may treat teams as groups to be convened to solve some short-term problem and then disbanded. Thus Lau and Idris's culture framework (2001), which focuses on communications, rewards, training and development, and teamwork, is—from the OCAI perspective—deeply flawed because Lau and Idris treat these dimensions as culturally neutral. To assess culture by asking how employees feel about working in teams (Boom and Orumugam 2006) tells one virtually nothing of value since what counts as a team is never specified by the questioner.

However, a variant of this same criticism can be leveled at the OCAI instrument itself. Its competing structural values of stability and flexibility, which are used to classify and compare culture types, also are not culturally neutral. A hierarchical culture may associate "stability" with maturity and interpret it as a necessary structural element in operations and even in value expression and transmission. An adhocracy, by contrast, may tend to anathematize "stability" seeing an attachment to permanence as simply an obstacle to growth. Adhocracies may not even be aware of stability as a structural element. In short, there is no "view from nowhere" from which to assess corporate culture. Every framework has hidden, embedded assumptions about the meaning of the variables being used to characterize corporate cultures. There is, I think, no way around this gnarly conceptual problem. So theorists

and researchers must take care to acknowledge and clearly specify the culture and value assumptions underlying each of their key variables. One area of future research then should center on reviewing models and specifying what these assumptions are and how they are affecting research outcomes with respect to leadership, strategy, empowerment, compensation, etc.

The OCAI is typically administered to an organization as a whole. This approach assumes in advance that the culture is relatively homogeneous. In fact, there may well be several important subcultures within an organization. The trading floor of a commercial bank is going to be considerably more outwardly focused than one of its operational divisions (e.g., check processing). Any resultant OCAI-identified “culture” may be a strange mishmash of many cultures. It might not even be a dominant culture anywhere in the assessed organization. If that is the case, then an organizational culture assessment may not provide leaders with much genuinely useful guidance. Both leadership studies and business ethics would profit from more research concerning the assumptions built into the *administration* of cultural assessment instruments of various sorts (Yauch and Steudel 2003).

The four types of leaders identified in the OCAI framework cannot readily be mapped on to other types of leaders identified in business literature. It would appear, for example, that both transformational and transactional leaders could arise in all four culture types. Is one culture type more conducive to, say, transformational leadership while another to transactional? If so, why exactly? And what about servant leaders? Is servant leadership more compatible with an adhocracy or clan culture than with a more structured, formal hierarchy culture? Relating OCAI leader types to other classical categories of leadership would be useful and likely illuminating.

One wonders, too, whether there might be such a thing as a life-cycle of OCAI leadership. When a company is first starting up, clan and adhocracy culture may dominate. Often startups have several founders, and leadership is more distributed throughout the firm as is the case with these two culture types. However, as the firm matures and gets larger, leaders may find that they need more structure and formal processes to stabilize the firm’s operations (Kargas and Varoutas 2015) and may look inwardly as they seek to find principles and values to ground this structure. If so, then we might see a firm migrating from being an adhocracy or clan culture to becoming more market-oriented before ending up as a hierarchy. If that is the case, then the OCAI framework might need several additional categories of leaders to capture the traits of effective leaders who manage these type transitions. I could find no empirical research related to OCAI leadership and culture life cycles. Some empirical investigations of the topic would be valuable.

The OCAI framework is designed to assess culture exclusively at the meso- or organizational level. Corporations, though, always exist in some larger context. National and international values, laws, and practices affect how employees think and how corporations operate. Hofstede (2001) and others (e.g., Kwantes and Boglarsky 2007) (for an overview of this research, see an extensive, although somewhat dated, review of the current state of cross-cultural organizational behavior research by Gelfand et al. 2007) have extensively documented how values and attendant motivations differ across nations as well as organizations (although Hofstede’s

work has been criticized as invalid on the ground that he conflates various categories—see Oyserman et al. 2002). Larger communal values (e.g., an American commitment to individual rights) inevitably will shape how members of that community understand a “leader”, “team”, or “hierarchy” and even perhaps something as operational as a “strategy”.

A similar point applies to industry or sector cultures, which will also reinforce, undermine, and shape organizational culture. Adhocracy culture, for example, appears to be more prevalent in the pharmaceutical sector, while the construction industry has more clan and hierarchy cultures (Gupta 2011). Effective leaders, therefore, must be sensitive not only to organizational culture but also to national and industry culture and to the reciprocal effects between the two. Much more research is needed concerning these reciprocal effects, and findings need to be presented in a fashion that leaders find intelligible and practicable.

When organizational cultural assessments are not done in a thoughtful and careful way, they can create more problems than they solve (Smit 2001). Even when assessments are administered well and their underlying assumptions understood, leaders may encounter various contingent limitations on their ability to work with, much less, to change organizational cultures (Tsui et al. 2006; Alvesson 2011). As Schein (1990) succinctly puts it, cultures reflect various employee experiences, not only (or primarily) a leader’s initial assumptions about that culture. So some empirical research into the best way to perform and to use assessments of corporate cultures would be most welcome.

Conclusion

Companies use the OCAI instrument to identify which one of four cultures dominates at their workplace. This culture is said to affect almost every aspect of a given firm, including its structure, orientation, planning, processes, strategy, definitions of success, performance, employee job satisfaction, and preferred leadership style. I argue that the OCAI framework can also be productively used (with some limitations and caveats) to identify ethical strengths and weaknesses and challenges and opportunities leaders may face in each of the four dominant cultures. Having identified these elements, leaders and employees in general are potentially better positioned to build upon advantage and to anticipate and then address incipient challenges.

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Chapter 12

The Virtuous Triangle: Ethics, Governance and Leadership



Stephen Bloomfield

Abstract This chapter shows that successful companies are founded on a virtuous relationship between ethics, governance, and leadership. Of these, leadership is always the weakest link. Companies' ethical foundations are established at the time of incorporation, by law. The governance structure is the means by which the ethical foundations are observed and should be cultivated by company leaders. Corporate governance definitions to hold leaders to account on this are deficient. Cadbury's revised definition has received less attention than his original but offers a way forward. This chapter is a contribution to a workable new definition that unites leadership with governance and ethics on the point of departure into a new form of economic activity where customers are also raw material and where the problems of economic and environmental sustainability are paramount.

Keywords Virtuous triangle · Ethics · Corporate governance · Leadership · Cadbury · Customers · Environmental sustainability

Summary

- Successful companies are founded on a virtuous relationship between ethics, governance and leadership
- Of these, leadership is always the weakest link
- Companies' ethical foundations are established at the time of incorporation, by law
- The Governance structure is the means by which the ethical foundations are observed and should be cultivated by company leaders
- Corporate governance definitions to hold leaders to account on this are deficient
- Cadbury's revised definition has received less attention than his original but offers a way forward
- A new suggested definition and the means of monitoring it
- The importance of finding a workable new definition that unites leadership with governance and ethics on the point of departure into a new form of economic

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activity where customers are also raw material and where the problems of economic and environmental sustainability are paramount.

The Significance of Leadership for Company Success

It would be very difficult to conceive of a legal structure of company management that did not include – implicitly or explicitly – ethics, good governance and effective leadership, in a definition of its desirable characteristics.

There can be very few company boards or individual senior managers who would want to say that the governance of the company they work for is poor; or that its activities lack an ethical base; or that it has poor leadership. The reasons are self-evident: the concepts of ethical behaviour, good governance and effective leadership carry a halo of – for want of a better phrase – ‘desirable wholesomeness’.

More importantly on a practical level those who run businesses have long been aware that in combination, they are a formula for a business that works for the benefit of its stakeholders – and also in the interests of society. The existence of all three of these factors in an appropriate balance becomes a virtuous triangle which leads to company success. That is a phrase which is simple to write or say yet very difficult to achieve with consistency. It is a bit like the circus trick of spinning plates on poles – it looks easy until you try it.

The difficulty of keeping all those plates – or even just three – spinning happily is underlined by the commercial history of the past forty years (roughly the period when the term ‘corporate governance’ became particularly prominent in discussions about business). The period is littered with scandals that owe their provenance to a lack of leadership; a failure of ethics; and poor governance – usually in a combination and often with all three in play.

Taken together the three concepts of ethical behaviour, good governance and good leadership should form the foundation for a successful organisation. Their combination should be a stable structure reinforced by the mutual support of the components: ethics provides the foundation; governance ensures that the desired outcomes are produced and leadership advances the business in continual pursuit of the objectives stipulated by the other two components,

Empirical evidence, requiring no more than simple reflection to verify, bears out the presumption of this virtuous relationship.

The Basis of Governance

In order to achieve the protection of the law, in whatever jurisdiction they are formed, all companies must be established on some form of ethical basis – at a minimum, a compliance with contemporary laws (which must be assumed to embody ethical principles).

It is only logical then to conclude that, having been established legally, it is the intention of the founders that the business should continue to be run in accordance with the governance structures that are established at the time of its foundation, either statutory or founder-instituted. Indeed, some of these objectives (lawful trading, proper adherence to the articles of association, the payment of appropriate taxes) are prescribed by law and so they *must* continue.

If the legal minimum of requirements is exceeded, then the additional provisions installed by the founding shareholders are presumably intended to ensure that the business runs in an orderly fashion at levels above the minimum standard – even if these additional standards are not perfect in their initial phrasing, or are overtaken by events. If it is the case that the business is a) properly established with the scaffolding of good governance required by the law and b) has a foundation of good principles, then it follows that if the business fails the weak link in the causality chain of failure must always be the remaining component – leadership.

The evidence from the numerous scandalous failures in every legal jurisdiction (that is those failures not caused by simple commercial poor judgement or other, uncontrollable external economic factors) inevitably leads to a simple conclusion. Even if a minimum standard of good governance is present, based on compliance with some form of ethical base – then companies can still be destroyed by poor leadership.

So, a scandalous company failure might be defined as:

...the consequence of poor governance, somewhere in its operations, due to unethical behaviour brought about by poor leadership.

To elaborate and refine the point, companies *always* fail in a scandalous fashion because of a style of leadership which breaches either the ethical formulation on which the company was set up (be that simple and minimal or elaborate and more sophisticated) or ignores the governance structures which accompanied the establishment of the company or have been put in place subsequently.

In short, leadership is the cement that holds companies with effective governance structures and sound ethical foundations together. Conversely, its erosion will bring – eventually and inevitably – the collapse of the company. Good governance structures and sound ethics prepare the basis for a successful company but only effective, observant and capable leadership can continue to make it work.

Problems with Contemporary Definitions of Governance

Assuming then that the company has been established legally with all the minimum safeguards required by law, the superstructure of governance should be the mechanism by which adherence to the foundation standards is achieved. But there are problems.....

Since its original appearance in 1992, the business and academic worlds have been fixated on the Cadbury definition of governance. No other formulation has

received such widespread acceptance. Given its prevalence, it is appropriate to quote it in full:

Corporate Governance is the system by which business corporations are directed and controlled. Boards of directors should be responsible for the governance of their companies. The shareholders role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The board's actions are subject to laws, regulations and the shareholders in general meeting. (*extracted from Report of the Cadbury Committee 1992*)

The definition concentrates very heavily on the pivotal position of the managers (broadly defined) of the company – emphasising the leadership of the board and the board's obligations in responding to shareholders, after setting strategic objectives and then engaging subordinate managers to achieve them. Ethical behaviour and legal compliance are not explicitly mentioned except in the cipher "to satisfy themselves that an appropriate governance structure is in place".

But the definition is seriously flawed in both its absolute formulation and in terms of the dynamic, relativistic development of the world that has arisen since 1992.

It is evident from the report of the committee which Sir Adrian Cadbury chaired, that the definition was not anticipated to be set in stone: the committee's report was not a corporate equivalent of the Ten Commandments and Cadbury was not Moses. Cadbury believed that his committee's report was a first attempt and would be added to and developed as time passed and circumstances changed. Unfortunately, while the first aspect has been (fitfully) attempted not much has been done about the second aspect.

So, while the definition was good for a first try it lacks many factors that have been added to the working mechanisms of governance subsequently. In particular, because of the ready, widespread and immediate acceptance of the definition, it has not been subjected to much critical revision but instead gets chanted like some sort of religious mantra as the premise on which all subsequent amendments are added. Presumably, the belief is that if it is said enough times then it must be right.

So, what should have been subjected, at least, to a process of modest incrementalism, which reflected both the change of external social and economic circumstances and the organic growth of understanding of governance, has instead has been treated almost like a natural law – a sort of $e=mc^2$ of the governance world.

The flaws that are in the 'standard' (Cadbury) definition of governance are like sub-critical fractures in the chain of ethics, governance and leadership. Separate flaws in each brings about room for the bigger flaws in the inherently weakest link – management – to come into play. Being a weak link, it is that part which breaks down.

First, perhaps the most glaring problem is that – as a product of both its time and its institutional genesis – the Cadbury definition includes only some of the participants, now recognised in a more sophisticated age, as being crucial to effective governance (workers; society; and the natural environment, to identify only the most obvious three).

Second, it is an essentially static definition which suggests that, once established by the three parties identified, that companies can be expected to perform 'properly'.

Third – and perhaps most significantly – it does it not have a basis in any form of contextual environment. It deals with governance as a 'blob' without recognising that there are a variety of dimensions to governance – internal; external; structural; procedural and systemic (again, at least) any of which, if they fail, can jeopardise the whole structure. I shall return to this point later.

These deficiencies were recognised from the outset. Cadbury and most of the audience his work was intended for, acknowledged initially that the definition only laid the groundwork. But like a traveller in the desert, academics (in particular) latched on to the definition and slaked their thirst at the Cadbury oasis, mistaking it for a destination rather than way-point from which to advance further. If you are dying of thirst you don't querry the colour of the water bottle.

Yet partly in response to the criticisms of the definition, partly as result of the rise of other concerns, some attempts have been made to wrestle Cadbury's concept of the definition of 'corporate governance' into a more useful and effective tool. Unfortunately, this has been done without paying much attention to the shortcomings of the definition.

Unsurprisingly, in consequence, not much success has been achieved because the basic premises of the (flawed) definition have been included in the revisions, without correction. Similarly, a few new definitions have been proposed but none have caught hold in the same way that the original Cadbury definition did. Perhaps this is because the Cadbury definition, for all its faults, has the virtue of simplicity.

Attempts have also been made to develop the mechanisms of governance (rather than then the conceptual scaffolding) – in the ways that Cadbury did expect, taking into account particular concerns that Cadbury did not deal with – and was not tasked to deal with in detail– remuneration, diversity, succession and so on.

These developments have mostly been some attempts by committees, building on the original Cadbury ideas, to develop further the principles that were established in 1992. The results of the deliberations of these committees have often been incrementally incorporated into corporate governance codes.

The UK government and the City of London between them had made four attempts at the end of the twentieth century to bring about change – the Greenbury Report; the Hampel Report; the trio of the Higgs Report and the Smith and Tyson reports; and lastly, the Turnbull report.

Of all them, the Greenbury Report was the most significant in dealing with the issue of leadership (although it was also heavily flawed, since it was chaired by an individual who was both the chairman and the chief executive of Marks and Spencer – a combination of posts that Cadbury had specifically decried; it might almost be though that the choice of chairman was a deliberate slight to the Cadbury principles from the outset). The Smith Report also dealt with leadership but in this case, in terms of gender (and, by implication, diversity). Greenbury attempted to link the quality of leadership of companies with shareholders' interests by suggesting that remuneration should a component structure split into basic and bonus

elements. This, of course, has had many malign consequences which have arisen under the law of unforeseen consequences.

All of the reports were largely supportive of the Cadbury initiative (although Hampel was very grouchy about it). Most of the major recommendations made their way into the 'Combined Code' (now known as the UK Governance Code) that acts as the contract that companies have to sign to make their way to having their shares quoted on the London Stock Exchange. Their inclusion in this document can thus be considered to be 'successes' in that some governance shortcomings were recognised and remedial action taken to put them right. But all the changes were either minor or at the margin or have not had the effect that was intended; hardly surprising – the poacher is usually three steps ahead of the gamekeeper.

If the governance codes (which companies sign up to as part of the contract for having their shares listed), incorporate these marginal changes to the definition; and if the original definition is widely acknowledged and accepted; and if the codes are subjected to some form of enforcement, then presumably the cause of good corporate governance should be advanced, no matter if the codes are a bit ragged around the edges.

Yet still new scandals are served up almost daily – and the most signal failure of the new focus on corporate governance was that fifteen years after the Cadbury Report, the worldwide shock of the 2007–8 financial crisis almost brought global financial systems to a point of meltdown – and in many countries brought about a lost decade of financial austerity measures and reduced economic prospects for hundreds of millions of people. This was despite the Cadbury Report and its successors identifying the problems that were at the root of the 2007–8 collapse.

After the 2007–8 collapse occurred, partly recognising that failures of corporate governance had largely been the cause, the UK government commissioned Sir David Walker to investigate to what extent poor governance had been the cause and how it might be improved to make sure that the same sequence of events did not happen again. The Walker Report added nothing to the debate, concluding that the corporate governance of UK companies was "fit for purpose", a conclusion whose sheer incongruity was underlined by the events it had been commissioned to review.

Alternatively, of course, one might conclude that if UK financial companies had been correctly founded (which is obligatory) and that their governance regimes were largely 'fit for purpose' then the only problem remaining to identify as a cause was that they had been poorly – even abysmally badly – led.

CSR and ESG

The ethical and moral deficiencies of the Cadbury definition were also apparent from the outset and it was not too long after the appearance of the Cadbury report that the first (and misguided) attempts were taken to interpolate some ethical leavening. The fashions for CSR (Corporate Social Responsibility) and ESG

(Environmental, Sustainability and Governance) investing grew out of a poorly understood extension of the concept of what the company is and does.

According to one definition CSR is “a self-regulating business model that helps a company be socially accountable”. (But no one ever really explains what “socially accountable” means). It is usually defined by what it is not. It is certainly not putting the interest of shareholders above all other stakeholders, for instance. But if stakeholders are not at the top of the pile then who is to take priority? And who is to say that the importance of whoever is top of the pile is more ethically correct than anyone else’s?

Despite this major problem, Corporate Social Responsibility doctrines were adopted rapidly by some companies. Perhaps this was because they believed in them – or perhaps it was because by advocating CSG they thought they could steal a march on their competitors and trumpet their own virtue in order to look good to investors and customers. (The latter is not a full explanation since what might be called “advertorial” CSG still costs a lot of money to implement.)

Regardless, Corporate Social Responsibility was one of the corporate buzz-phrases of the nineties and early part of the noughties among a cadre of “enlightened” managers, investors and academics. But it had one very pernicious element. In suggesting that companies had obligations beyond those to their shareholders (which of course they always did – not least of which are the payment of taxes and the obligation to abide by the law) the proponents of the argument went on to suggest that if they are legal beings then they must have countervailing obligations to observe as much as they have rights to exercise. The full-blown version of this argument is that companies might be considered as ‘citizens’ – presumably in a misunderstood extrapolation of the fact that companies are legal beings. This was a form of corporate anthropomorphism that led into very tricky moral territory.

Granting companies the implicit rights of citizenship is a very different kettle of fish from suggesting that there are obligations companies must follow. Citizenship bestows all sorts of rights – the right to vote; the right to participate in legislation; the right to sit on a jury, all of which require perceptive and discriminative intelligence – which companies manifestly do not have. None of the marks of citizenship is appropriate to be in the possession of a company – unless society is organised under Fascist principles.

The concept of corporate citizenship is deeply disturbing and one which really has no further place in discussion about holding companies to account. Far from doing so, it has the perverse effect of giving them further powers, which impinge upon the legitimate rights of real persons. Yet this sinister departure has not gone away and has been revived, in camouflage, with recent proposals by the American Business Round Table (see below).

Sanctions on Breaches

One of the problems with the concept of the company as a legal entity (which ordinarily means only that it can sue and be sued; enter into contracts; and has an existence beyond that of its founders) is how to deal with breaches of law committed by the company.

If the company is run by directors – as agents of the shareholders – then they are presumably responsible for its actions. This would suggest that they should be held responsible for what goes wrong as much as what goes right. Yet if there are many of them and they decide in board meetings on courses of action and those actions are then executed by others, are they actually liable for breaches of the law as individuals? Current legal doctrine mostly suggests – except for one or two particular instances – that ‘the company’ is at fault – the legal entity.

But if that is so how do you punish a company? How do you send a company to jail? As Lord Thurlow, Lord Chancellor of Great Britain between 1778 and 1783 observed, companies have ‘no soul to damn; no body to kick’.

The option most usually chosen by the courts when such cases come before them, is to punish the company with fines. But this punishes innocent shareholders along with “guilty” directors and so it should offend against concepts of equity. That problem is overcome by pretending that since the shareholders appointed the directors as their agents with the power to engage the managers and employees who may have brought about the problems, then the shareholders are equally guilty. Giving a company citizenship – a characteristic of sentient beings rather than paper legal entities – would only make this problem more complex: it would still have no soul to damn and no body to kick but would have, presumably, the right to defend itself against the directors and, possibly, against the shareholders.

The legal problems surrounding legal obligations and rights are one thing but the information and management of CSR are another. Peter Drucker’s often quoted line is broadly that “if you can measure it, you can manage it”. Unfortunately for corporate social responsibility, the methods by which proponents of CSR were suggesting that companies should be held to account – the way that they should manage themselves to ensure compliance – do not properly exist. This problem has bedevilled alternative objective forms of company evaluation ever since the ‘Triple Bottom Line’ of the original “Cannibals with Forks” proposals by Elkington in 1994. A criticism was levelled then that “what is original is not useful and what is useful is not original”.

More simply, the methods of accounting which have been devised to measure company performance are all based on shareholder primacy. Re-jigging them (as the Triple Bottom Line method purported to do) to show something different is ... just re-jigging. It might want to be ethical and to incorporate those ethics into governance structures but in reality, it is still at the mercy of leadership.

Some of the same problems bedevil the progeny of CSR – Environmental, Sustainability and Governance reporting. Although this does not go as far as suggesting that companies should be granted the rights that are denied to many human

beings, it does still try to measure companies on certain indicators, where none properly exist. Numerous agencies have set themselves up as advisers to evaluate companies' behaviour but no commonly accepted standards of measurement exist and some of those which are the most trumpeted are highly subjective and depend upon evaluating subjective reports made by the companies themselves. Leadership wins again.

The problem is that the efficient allocation of resources requires some universal value to be attached so that rational comparisons can be made. Yet the only system of value allocation available is one that relates to the profit and loss account – either at the accounting level of the company or of the economy. This rational allocation can of course (and should, of course) be extended to include the costs of the business operation that are imposed on society and on the planet. But the theoretical tools for doing this in consistent and easily applicable way are not yet in our possession. Information has been moulded for the benefit of the private rather than the public interest.

The Shareholder/Stakeholder Tension

For much of the period that limited companies have been the engine of economic growth, controversy has see-sawed as to whether the public or the private interest is more important.

In 1884, William Vanderbilt declared as part of his famous “the Public be damned” outburst that “Railroads are not run for the public benefit, but to pay. Incidentally, we may benefit humanity, but the aim is to earn a dividend.” An uneasy peace seemed to exist until the late twentieth century: provided there was an incidental benefit to humanity, then companies could continue with their main aim of producing dividends for shareholders.

But towards the end of the twentieth century the terms of the debate began to shift. The value of the incidental benefit to humanity that arose through producing income to pay dividends – and more particularly the incidental costs to humanity of that activity – began to be perceived differently. Company leaders, who may have acknowledged the argument privately, were among the last to recognise and voice their acceptance of the change – perhaps because their mouths were stuffed with gold.

Consequently, it became fashionable to include references to the company's social conscience in the pages of the annual report – even though the single most glaring measure for most people, the disparity between the average level of pay in the company and the pay of the directors, may have continued to widen. The slight reference to urgent, fashionable issues could be passed off as ‘leadership’ on the part of the company and allow the senior executives to display concern, while still reaping the benefits of bonus payments related to increases in shareholder value.

But the drumbeat urgings of environmental sustainability continued as water began to rise in some places and dry up in others; as local climates heated up and the

very nature of existence began to be unravelling at the edges. Sustainability began to take hold in the popular consciousness, not simply among the committed and the activists.

The Business Round Table Proposals – A Vapid and Dangerous Suggestion

In the middle of 2019, the American ‘Business Round Table’ – a grouping of about 200 senior executives of major American companies, which dates back in one form or another to about 1972 – suggested in a new policy proposal that shareholder primacy was not now their guiding light and the world’s changed circumstances required that a different attitude be taken. It appeared that a binary change had occurred in their thinking: a flip from one state of existence to another.

This up-ending of its previous four-decades-old definition of the purpose of a company appeared to many critics of corporate power, to be a welcome recognition of changing social attitudes. Previously, the Round Table’s attitude had appeared to be one of continual prioritising of growth–above–all–else in the world’s major economies. This was at odds with the rising significance in public debate of issues of sustainability and the protection of the environment which were becoming more and more important to civic society, as the limits to – and costs of – continual growth became more apparent.

But the proposal made by the Round Table was not quite so straightforward as it appeared at first blush. The Round Table initiative allowed the chief executives to hit two birds with one stone – the perpetual, irritating demands of shareholders for rewards (and therefore a say in how those rewards might be best obtained) were shot down if the companies chose to follow a virtuous path of saving the planet, which would take the environmentalists of their backs too.

So, as well as reformulating the purpose of a company, the Round Table proposal posed a fundamental challenge to the issue of control of a company, since it pushed shareholders’ interest down the list. The old problem which CSR had been unable to answer reappeared: if a company is not set up to benefit its shareholders what is it set up for? If shareholders are not in control and if shareholders are not the ones who are the prime beneficiaries of company activity... then who is?

The answer, which the Business Round Table appeared to balk at explaining fully, must be that companies will be run by their directors, without recourse – except in the widest sense – to shareholders. It is the directors who will decide what is in the best interests of all. In short, we have come back to the CSR citizenship idea but without the inflammatory suggestion that companies should be ‘citizens’.

The Round Table (and CSR) formulation is a proxy for saying that the leaders will be in charge – since they are supposedly, according to the Business Round Table – best placed to determine what is best for all. This, then, allocates huge

powers to the leaders of companies and even more power to leaders of the very large companies upon which we all depend in some way.

This is a potentially frightening development. Control of the company is placed in the hands of a self-selecting elite, over whom there is what in terms of supervision? It might be conjectured we are verging on a close to Fascist model of industrial dominance and social control if these suggestions are adopted and then allowed to progress.

The Corporate/Controlling Mind Problem

Nor are the future politico-social problems that the Round Table proposes the end of the matter. They are a first step on the slippery slope. More immediately the plans would vastly complicate the problems of sanctions on companies that break the law.

The ‘controlling mind’ concept has been introduced into British law to try to overcome the problem (notably in the Corporate Manslaughter and Corporate Homicide Act of 2007; and to a lesser extent in both the Bribery Act of 2010 and the Criminal Finances Act 2017). The enforcement of these laws has met with continuing problems: judges are still largely unwilling to allocate specific blame to specific individuals where there is any doubt as to proof of specific guilt set at the level of criminal actions.

At first it might seem that the elimination of shareholders’ interests might make the task of apportioning blame for acts causing harm easier to establish. But perversely the controlling mind concept might be more difficult to enforce where company leaders were determining company priorities themselves without any shareholder framework, because the targets to which the company was being set might be more nebulous and a convincing defence easier therefore to mount: the illegal/harmful/dangerous acts were not a specific fallout of the drive for profit but an unintended consequence of virtuous intent.

And if we look at the virtuous triangle again – ethics, governance and leadership – the weak link has already been identified. The company leader – either an individual or a group of similarly-minded individuals – is the very person whom the Round Table’s proposal would seek to put in unrestrained charge of the company.

So arguments for the suppression of shareholder primacy as advanced by the Round Table suggest that the pursuit of good governance, which protects nurtures and extends the ethical foundation of the company, is best accomplished by an elevation of the weakest link to the top of the chain and a diminution of the controls that shareholders exercise through their use of the (limited) governance tools at their disposal.

Furthermore, under the Round Table proposals, this reversal of priorities should be undertaken when there are no valid and effective measures of sustainability and environmental hygiene that can be universally agreed upon. And as has already been pointed out, Mr Drucker’s principle that if you can’t measure it you can’t manage it has not been refuted.

This reversal/upending of priorities then plainly does not make sense if the virtuous triangle argument is accepted.

A few examples of the sort of breaches of good governance which have occurred over the past two decades will illustrate the unwisdom of giving directors the power to decide company priorities in the absence of a proper appreciation of shareholder priority or when the purported elevation of shareholder priority is really a toxic mix of increasing directorial remuneration under the guise of improving shareholder value. For the simple fact is that there are already few restraints placed on directors, except for the aim to satisfy their shareholders by the payment of dividends and the increase in share price (for unless they do this they will surely find themselves replaced – either by shareholders directly or by companies that can make more efficient use of the assets).

- Equitable Life (2000) – the guaranteed annuity scandal
- Royal Dutch Shell reserves restatement (2004) – extensive misleading statements
- Actis Capital and CDC (2004) – excessive remuneration
- Langbar International (2005) – AIM listed “pump and dump” fraud
- BP Texas City blast (2005) – cost-cutting reduces maintenance expenditure and leads to lethal explosions
- BAe ethics report (Woolf Report – 2008) – *el-Yamama* scandal; systemically corrupt business
- RBS/ABN Amro (2007) – failed due diligence on acquisition that precipitated collapse of RBS
- Northern Rock failure (2008) – the start of the 2007–8 financial crisis brought about by a flawed business model
- Carphone Warehouse (2009) – director’s loans scandal
- JJB Sports (2009) – director’s loans; significant governance lapses
- Keydata (2009) – improper accounting
- Farepak (2009) – loss of Christmas savings funds
- The Phoenix 4 – Leyland (2009) – preferential terms for directors on collapse
- Arch Cru failure (2009) – investment fund fraud, supposedly low risk; subsequent mismanagement by administrators and by FSCS
- Mitchells and Butler (2009–) – financial engineering that lost shareholders £1/4 bn
- Weaving Capital (2009) – hedge fund failure brought about by fraud;
- The PPI Scandals (all UK banks)
- LIBOR manipulation (all UK banks)
- FOREX manipulation (all UK banks)
- Money Laundering (several UK banks but especially HSBC and Standard Chartered)
- Tesco profits overstatement (2014) - dubious accounting practices
- Sports Direct (2016) – wages unlawfully withheld; poor employment conditions; governance breaches
- Carillion (2017) – and near-collapse of other outsourcing companies

- Cambridge Analytica (2018) – misuse of Facebook data and the rigging of UK parliamentary elections
- Patisserie Valerie (2018) – grossly incompetent directorial oversight
- Ted Baker (2018) – sexual harassment claims and profits collapse
- BhS (2018) – continuing saga of the collapse of the Philip Green empire
- Kier (2019) – break-up of the construction company because of poor directorial control over two years
- Crossrail overspend – failure of board oversight of contractor controls
- HS2 overspend – failure of board control; land purchasing imbalance; flawed forecasting
- PwC (2019) professional incompetence – partnership fined £4.55 million and two partners fined £140,000 each over failures in audits, including listed company Redcentric
- Woodford Equity Income Fund (2019) – collapse of the “Patient Capital ‘fund because of mis-stated risk profile of fund; inadequate performance of the Authorised Corporate Director; promotion of fund by a broker insufficiently objective because of fee income.
- SwedBank (2019) Baltic money-laundering scandal
- Danske Bank (2019) Baltic money-laundering scandal
- Kraft Heinz (2019) Material mis-statement of past accounts
- Southern Water (Greensands Investments) (2019) UK – company fined £125m for deliberately falsifying monitoring information and misleading customers
- The collapse of Thomas Cook (2019) – directors pay; consultancy costs; over-indebtedness

Nearly all of these scandals were brought about by the issue of pay – simply that of directors seeking to promote or enhance their own interests, either by undertaking risky actions or concealing the effects of risky actions they had previously taken (or by turning a blind eye to the acts of their subordinates).

The weapons of governance that shareholders have at their disposal to control the actions of directors are very limited. The information provided to shareholders is all historical in nature (for if it is not there has been a breach of the insider trading laws); shareholders are not allowed access to board papers in the ordinary course of events; their scrutiny of the company’s directors is limited to one event a year, when the questions then can ask and the answers they get are heavily stage-managed; the strategy and future plans of the company are revealed to shareholders only in the broadest of detail; their discretion is exercised only at the most formulaic level – approval of accounts; approval of auditors; approval of a dividend recommended by directors; re-appointment of existing directors.

All these events are really only a pantomime – even the directors’ remuneration report is not subject to sanction (in the UK at least). In fact, through the provision of “noisy departure” it might be claimed that retiring auditors have greater (admittedly negative and historical) influence over the actions of the directors than do the shareholders. Yet they do provide some leverage over directorial misbehaviour in the

sense that they are conducted in a public forum – the company meeting – which attracts publicity and comment.

Improving the Standard of Governance and Leadership

The way that companies are established – process; format; limitations – has to be accepted as a given, at least for the short term if not much further. The English legal system's installed preferences and generations of precedent have established that it is not for the State to intervene to say how companies are run except where there have been manifest inequities or existing rules have been breached. Furthermore, the English legal system is shot through with the concept of natural justice and judge-run system has made company law in that image when called upon to decide between parties, rather than adopting a prescriptive approach.

So, if the ethical basis is unlikely to change (why should it? Is the system going to embrace unethical precepts?) and the law is unlikely to develop in a prescriptive fashion, it is up to the structures of governance to change to reinforce the defences against leadership gone rogue. By doing this, leadership will itself become reinforced and – pious though it sounds – more ethical.

This means that the established Cadbury definition has got to change. It is not enough to repeat it – like a mantra – in the hope that it will solve problems by repetition. One of the definitions of madness is to do the same thing over and over again in the hope of achieving a different result.

A good start would be to break the definition down, salvage what is good and re-use it and then supply what is missing.

A couple of years after the publication of his Committee's report Sir Adrian Cadbury had begun to do this, although his revision attracted less attention than the original formulation:

Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals...the aim is to align as nearly as possible the interests of individuals, corporations and society. (*Sir Adrian Cadbury, Corporate Governance Overview, World Bank Report; 1999*)

This formulation comes much closer to dealing with contemporary concerns than the original and indicates the way forward. Plainly it is a much more moral formulation than the original, perhaps influenced by the Quakerism of the Cadbury family.

It should be to the second formulation – supplemented as required by modern circumstances – that we should look rather than the forty-year old original whose currency has become devalued by newer more urgent concerns.

A new formulation might then take into account Sir Adrian's phrase about holding the balance between economic and social goals and aligning interests. We still have no effective measures for assessing anything other than shareholder value so we shall have to use proxies, which will include a combination of existing

shareholder measures and some performance measures that are non-numerical in nature. A new definition might then be along the following lines, supplemented by additional provisions about outcomes:

Corporate governance is the governing structure and processes in an organisation that exist to oversee the means by which limited resources are efficiently directed to competing purposes for the use of the organisation and its stakeholders, including the maintenance of the organisation and its long-run sustainability, set against a background of managerial and shareholder behaviour implicitly measured against a framework of ethics and backed by regulation and laws. (*extracted from The Theory and Practice of Corporate Governance 2013 (CUP) by Stephen Bloomfield*)

Since corporate governance is about ethics, law and leadership, controlling company governance internally to the company is about the same three things, together with an external issue – the health and well-being of the wider system in which individual companies operate. The four issues then can be listed as the following:

1. Ensuring the internal procedures of governance that affect shareholders are healthy and sound – the maintenance of shareholders' rights; vote counting; the regulation of meetings and so on;
2. Ensuring that the company's internal operational structures are congruent with the governance procedures that have been established;
3. Making sure that the company culture and employee operational behaviour matches the first two;
4. Making sure that the overall system in which individual companies reside is ethically sound and does not encourage unethical behaviour.

All these four elements are founded on some sort of ethical appreciation – even if not an explicit one. They form one unified whole divided into four vectors – the *dimensions of corporate governance* – and can be conveniently stated as:

- the procedural dimension
 - the structural dimension
 - the behavioural dimension
- and
- the systemic dimension.

These four dimensions are all manifestly the province and concern of the leadership of the company. If they break down then the breakdown is the fault of the leaders of the company. It is then up to the shareholders to take action against the leaders with none of the complications of 'corporate citizenship' to cloud the issue.

Under the dimensional approach, companies revert to observing their necessary obligations – obeying the law and paying their taxes. They do not make public policy; they do not sit in judgement on how the totality of resources shall be used; they do not seek to elevate one set of priorities over another without some form of collective social justification.

All these issues are the province of real people, not artificial ones. And all these issues require leaders who understand their ethical responsibilities – their moral

responsibilities to society – as much as they exercise qualities of leadership. With the growth of entirely new forms of industry – the infotainment industry – where the old relationship of customer and producer become upended as customers become the feedstock of the new businesses by attaching monetary value to the behaviour of customers, this is a need that is crucial to social well-being.

In summary, if we are to see the independent company survive as means of improving the economic well-being of millions of people and the social structure in which individual freedom is valued, what we may need is a change to a culture that relegates the cult of the leader who bends rules and avoids ethical examination in favour of collaborative decision-making that has ethical concerns at its root. *Corporate governance is really about holding the balance between economic and social goals and between individual and communal goals. The aim is to align, as closely as possible, the interests of individuals, corporations, and society.*

Chapter 13

How Losing Soul Leads to Ethical Corruption in Business



Ronald Duska and Julie Anne Ragatz

Abstract John Bogle states in *The Battle For The Soul Of Capitalism* that he will describe ‘how the financial system undermined social ideals, damaged trust in the markets, robbed investors of trillions – and what to do about it.’ I want to exploit Bogle’s words and speak about corruption as the very loss of soul by reference to some concepts developed by the Greek philosopher Aristotle. I want ask, “How would Aristotle analyze what is going on in the scandalous behavior of business in the twenty first century?” His explanation, I think, would be simple. Businesses have lost their souls. This chapter examines the cause of the loss of soul through the adoption of an idea which I will call the Principle of Capitalism. That principle holds that the primary and only responsibility of business is to maximize profit for the shareholder with consequences in the business schools and the boardrooms.

Keywords Aristotle · Milton Friedman · Adam Smith · Soul of capitalism · Profit · Promise-making

What doth it profit a man if he gain the whole world and lose his soul?¹

John Bogle states in his book *The Battle For The Soul Of Capitalism* that he will describe “how the financial system undermined social ideals, damaged trust in the markets, robbed investors of trillions – and what to do about it.”² Bogle argues that the financial system is corrupt and there are two contributors to this corruption; the first is excessive executive compensation and the second is onset of quarterly earnings guidance.

¹ (Mark 8:36)

² John C. Bogle, *The Battle for the Soul of Capitalism*. New Haven, Yale University Press, 2005.

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I am intrigued by Bogle's title which talks about the *soul* of Capitalism. I want to exploit Bogle's words, if not his thoughts, and talk about corruption as the very loss of soul. But we need to get clear about what I mean by soul.

To explain what I mean by soul, I want to make use of some concepts developed by the Greek philosopher Aristotle. Some years ago, there was a popular book entitled *What If Aristotle Ran General Motors?* I want to suggest a different tack, and ask, "How would Aristotle analyze what is going on in the scandalous behavior of business in the twenty first century?" His explanation, I think, would be simple. Businesses have lost their souls. On an Aristotelian account, businesses, like human beings or any other entity, are comprised of four causes; material, formal, efficient, and final. The material cause is the stuff, the formal cause is the organization of the stuff, the efficient cause is the mover that brings the stuff together and the final cause is the purpose of the whole entity.

In living beings, the material cause is obviously the organic body and the formal cause is the spirit or soul. The soul (*psyche*, in Greek) is the dynamic force, or the animating (*animus* in Latin) principle. Aristotle's work on the soul was entitled *Peri Psyche* in ancient Greek and *De Anima* in later Latin translations.

In a discussion of the four causes, Aristotle indicates that at times the formal cause is identical with the final cause.³ In other words, to explain "what" a thing is sometimes involves explaining "what it is for". In order to understand the essence or nature of some thing we need to determine its purpose. Indeed, in the case of physically amorphous things like social institutions, it may be the only possible way to explain them is in terms of their purposes, not the way their physical makeup is structured. For example, in order to understand what a government is, it is best to explain the purpose that a government serves, rather than providing a description of the buildings in which the government is housed. So, to understand a social institution, it is not sufficient to describe its aggregate parts. One needs to explain its function or purpose. To the extent a social institution functions or operates, it has an animating principle which is its purpose.

If we identify formal and final causes like Aristotle did, we can argue that a business, like a human being, is a living enterprise driven by its projects and goals, i.e. its purposes. Further, when it loses its purpose or changes its purpose, its very being is changed. What the business was, on account of its original animating purpose ceases to be, and the institution becomes corrupted (at least with respect to its original purpose). The corruption we see in business today is the result of such a loss of purpose (soul).

But Aristotelians are not the only people who talk about the soul of business, Max Weber used the concept of spirit in his work *The Protestant Ethic and the Spirit of Capitalism*.⁴ Weber's work in the original German uses the word *Geist*, which gets translated into English as "spirit". I would suggest that the notion of *Geist* is

³Aristotle, *Physics* Book II, Chapter 7 (198a24-27).

⁴Max Weber, *The Protestant Ethic and The Spirit of Capitalism* translated by Talcott Parsons and Anthony Giddens. Boston, Unwin Hyman, 1930.

very similar to the notion of soul as we are using it. Further, the word spirit comes from the Latin word *spiritus* and is almost identical to the Aristotelian notion of *form*, where the soul or spirit or *geist* is the organizing or animating principle of the organic body having life in potency.

We would also suggest that in this matter we can see similarities between the 20th century philosopher Ludwig Wittgenstein and Aristotle. Two central claims for which Wittgenstein is famous are the claim that “the meaning is the use” and the claim that there are “forms of life” which constitute sociological relationships. According to Wittgenstein,⁵ we know what something is by knowing its use – what it is for, and that use constitutes a “form of life”. To tie these notions of Weber and Wittgenstein together, let us suggest that such a spirit (*geist*) as Weber refers to constitutes for Wittgenstein a “form of life”. Noting that the subject at some point switches from “I” to “We”, not sure if this should be changed.

The identification of form (formal cause) and purpose (final cause) is not only manifested in amorphous social organizations, it is also manifested in individual human beings. A person’s purpose or ends are, in a sense, his or her soul, since those ends define what the person is. A person’s mission (a collection of his or her ends) is the result of the person’s commitments to particular projects and ideas. The mission one chooses defines one’s identity in a more meaningful manner than a description of one’s aggregate physical characteristics.

The Promise Making Animal

One of the most unique characteristics of a human person is the ability to make a promise, which requires envisioning oneself as acting in the future. The ability to look to the future and remember the past, gives a person the capacity to make promises, and develop projects to which one commits. Those commitments in turn are defining characteristics of the individual. Thus, it is important to examine the nature of promises and their relationship to one’s identity and soul.

Consider the following reflections on the activity of promise making by Hume and Nietzsche. David Hume, in the *Treatise on Human Nature*, calls promise making “...one of the most mysterious and incomprehensible operations that can possibly be imagined.”⁶

Frederick Nietzsche in *The Genealogy of Morals*, says the following about promise making: “To breed an animal that is permitted to promise – isn’t this precisely the paradoxical task nature has set for itself with regard to man?”⁷

⁵Ludwig Wittgenstein, *Philosophical Investigations*. Translated by G.E.M. Anscombe. Oxford, Blackwell, 1963, para. 23, 43, 241, 242.

⁶David Hume “Treatise on Human Nature” in *The Great Legal Philosophers*, ed. Clarence Morris. Philadelphia, University of Pennsylvania Press, 1959, 207.

⁷Frederick Nietzsche, *On the Genealogy of Morals*, Translated by Walter Kaufmann and R. J. Hollingdale, New York, Vintage Books, 1989, 57.

Why is promise making mysterious and paradoxical? Reflect for a moment about what is necessary to keep a promise. To begin, making and keeping a promise requires being able to transcend the present time, the here and now. To make a promise you must be able to look into the future and remember the past, anticipating that at some future time you will be required to perform in a certain way, whether you want to or not, because you promised to do so. You must have a memory of a past action that bound you to a yet to happen course of action in the future. It is our past promises which are probably responsible for most of our current activities. The ability to make promises is paradoxical in the animal kingdom for it is a very special activity, since as far as we know human beings are the only animals that exhibit a promise making function. It is a sign that humans are not determined solely by their hard-wiring, but by their own commitments.

What is more, promises and relationships help define what we are. Consider what happens when you meet a stranger and what you inquire about in order to find out more about him/her. How do you get to know the person? Noting and describing someone's physical attributes provides meaningful information. Those attributes are transparent. Rather, to get to know someone you inquire about what he/she does, what sorts of relationships he/she is in and what his/her aspirations or goals are. Answers to those questions tell you who he/she is. People are defined by their activities and relationships which are the result of their projects and commitments, in short, their promises.

The ability to make promises is fundamental to our existence as relational beings. If life is "all about relationships", then life is all about promises. The act of promising establishes a relationship with another by committing that in the future we will act in a certain way toward another. Additionally, the maintenance of relationships requires our assent to implicit promises, which involve actions or emotions which are reasonably expected, but not anticipated. When you become a friend, for example, you implicitly promise to "be there" for the other. When you become a parent, you implicitly commit to helping raise your child. When you become an adviser, financial or otherwise, you commit to examine and advise according to what is in the other's (the advisee's) best interest, even if it is not in your interest.

Worthwhile Goals

But being a promise maker is not sufficient for being ethical. People can make false promises, vengeful promises, or promises to carry out unethical activities. People can make commitments to unethical ends. So promises, to be fully ethical, must be tied to something else. They must be commitments to worthwhile goals. As we have seen, goals, as well as promises, define who one is. Upon first meeting others we are likely to either describe what we do, identify our job, or talk about our relationships or future projects and plans. Since it is these activities that define us more than anything else, we rarely describe our physical makeup. Rather we talk about our hopes and dreams, the things that define us, shape us and give us "soul".

To return to our main point, we wish to argue that the loss of soul or a worthwhile defining purpose is a malaise that has spread across the world of business and accounts for much of the unethical behavior that so scandalizes society today. Businesses talk about vision, mission and values, and rightly so, because those visions, missions and values are the goals and purposes of the companies. In that sense, the goals and purposes of the corporation are the soul of the corporation, the animating and ordering principle of organization, they give life and structure to the activities of the organization. But there can be worthwhile missions and misguided missions. Entities can be corrupted. Corporations can lose their souls. (It is serendipitous that the root of the word “corporation” means “body” the word *corpus* in Latin).

When a business strays from a worthwhile goal or purpose, it becomes corrupt. That means that when companies forget that they are in business to provide goods and services for consumers and their animating purpose becomes push products and services to make a profit, they lose their vision and corrupt their souls.

Aristotle, in his analysis and evaluation of the process of accumulation of wealth, shows how this occurs. He identifies accumulation of wealth for its own sake (read “profit for the sake of profit”) as one of the major sources of corruption. He thinks people who turn “...every quality or art into a means of getting wealth”⁸ have corrupted themselves. “This (accumulation of wealth for its own sake) they conceive to be the end, and to the promotion of that end they think all things must contribute”.⁹ The corruption occurs because striving for such a goal (accumulation of wealth for its own sake) is unworthy of human beings.

Of course, Aristotle does not believe that all wealth accumulation is corrupting. It is perfectly acceptable to accumulate wealth in order to live well. But notice in this case that living well is the goal, for which the accumulation is a mere means. It is when wealth accumulation becomes an end in itself that a problem arises. According to Aristotle, if you accumulate wealth for its own sake, you “get intent upon living only, and not upon living well.”¹⁰

To make the point that those intent on accumulating wealth for its own sake destroy the true wealth of life, Aristotle recalls the story of King Midas. He asks, “How can that be wealth of which a man may have a great abundance and yet perish with hunger, like Midas in the fable, whose insatiable prayer turned everything that was set before him into gold?”¹¹ When Midas’ touch turned all into gold, he realized he had missed out on the really important things in life.

A disturbing consequence of accumulating wealth for its own sake is that the accumulator necessarily loses all sense of limits. One can never be satisfied since there is not enough wealth to satisfy. A second disturbing consequence of accumulating wealth for its own sake is that there are no ethical checks on the means used

⁸ Aristotle (*Politics* I. 9).

⁹ Aristotle, (*Politics* I. 9).

¹⁰ Aristotle, (*Politics* I. 9).

¹¹ Aristotle, (*Politics*, I. 9).

to accumulate the wealth. The pursuit of wealth, on account of its limitless nature, inevitably turns every other goal or end into a money-making opportunity and this inversion of ends leads to greater corruption, disharmony with one's community and profound unhappiness.

Think to what extent the exclusive pursuit of money led the Ebbers and Fastows of the world to forget their fiduciary responsibilities to their companies, their responsibilities to their communities, to their families and to themselves. This monomaniacal pursuit of wealth, properly called "greed", and the subsequent loss of soul or defining purpose, is a malaise that unfortunately has spread across the world of business. Frank Partnoy, in his work *Infectious Greed*, claims that part of the cause of corruption in business was due to the fact that "treasurers of industrial companies had begun operating as profit centers. Traders were left unsupervised and shareholders were ignorant of the treasurers' activities".¹² Treasurers forgot their purpose, and turned financial offices into sources of revenue, rather than turning the products of the company into the source of revenue.

The recent scandals have shown example after example of individuals who, rather than looking out for the interests of consumers, are merely looking to make as much money as possible. But is such an attitude a necessary outcome of doing business?

Cause of the Loss of Soul

Max Weber seems to think so. In *The Protestant Ethic and the Spirit of Capitalism* Weber indicates that the drive for profit is inevitable. Unlike Bogle, Weber understands the capitalist system to be in accord with one main rule or having one spirit. "Capitalism is identical with the pursuit of [profit] and forever renewed profit by means of continuous, rational, capitalistic enterprise."¹³ If Weber is right and capitalism is viewed in this way, we can see that what gives the capitalist society its shape or form of life is the single minded pursuit of profit and forever renewed profit. But such a goal is not worthwhile. Such a goal is accumulation for the sake of accumulation. But such a capitalist form of life, by in-forming the body politic, defines the culture. Weber thinks that such a form of life is inevitable and predicts that "... in a wholly capitalistic order of society, an individual capitalistic enterprise which did not take advantage of its opportunities for profit-making would be doomed to extinction".¹⁴

If Weber is correct then capitalism falls into the trap Aristotle warns us about. Capitalism, in its never-ending quest for profit, turns "every quality or art into a means of getting wealth. This they conceive to be the end, and to the promotion of

¹² Frank Partnoy, *Infectious Greed*. New York, Henry Holt and Company, 2003. p. 184.

¹³ *The Protestant Ethic and the Spirit of Capitalism* p. 17.

¹⁴ *The Protestant Ethic and the Spirit of Capitalism* p. 17.

that end they think all things must contribute”.¹⁵ The first dogma of the church of capitalism becomes the mantra: “The primary and only responsibility of business is to maximize shareholder wealth.” Business is viewed primarily as a means to getting wealth. Widespread belief in this dogma throughout the business community has two effects; the first is that it destroys “real” wealth and prevents real happiness, which Aristotle calls *Eudemonia* (human flourishing) and the second is that it creates a sense that there are no limits. Because there is never enough and the end of wealth accumulation justifies any means, there is no limit on the means used to accumulate the wealth except those forced on one by the law, and this limitation is circumscribed as much as possible.

Enron as an Example

We can use Enron as an example of this corruption. We already mentioned that Jeff Skilling set as Enron’s goal as stated on its web site, “...to be the world’s leading company”. If our thesis of losing soul is correct, this statement reveals that Enron, by the time it made this statement, had already lost its identity as a corporation involved in the business of serving the energy needs of its customers. Enron had forgotten its worthwhile goals.

Peggy Noonan, *The Wall Street Journal* columnist, who once worked for Enron as a consultant, relates how she faced the following perplexing situation when she tried to write a description of what Enron was. In asking people at Enron, they came up with the following description:

“It’s difficult to define Enron in a sentence, but the closest we come is this: we make commodity markets so that we can deliver physical commodities to our customers at a predictable price. It’s difficult, too, to talk about Enron without using the word ‘innovative.’ Most of the things we do have never been done before.” Noonan relates other difficulties determining the purpose of Enron. “One was that the guys at the top, and in the middle, seemed unable to communicate to me exactly what it was the company was doing to make money. So I didn’t absorb the information and make it understandable to others. The other was that I think I sensed a sort of corporate monomania at the top – if you can’t understand what we’re doing then maybe you’re not too bright.”

Noonan continues:

...but the key part was that I couldn’t help them explain their mission because I didn’t fully understand what their mission was. I understand what the Kenneth Cole shoe company does. It makes shoes and sells them in stores. Firestone makes tires. I couldn’t figure out how Enron was making its money, what exactly it was selling, and every time I asked I got a kind of gobbledygook answer or a cryptic one, like ‘The future!’¹⁶

Unfortunately, Enron is not unique. It exhibits symptoms of a recurrent pattern. What has happened over and over again is three acts of corporate misbehavior; the

¹⁵ Aristotle, *Politics* I.9.

¹⁶ Peggy Noonan, “An Empire Built on Ifs,” *Wall Street Journal Editorial Page*, January 25, 2002.

first is that companies have forgotten their purpose. The second is that markets have been manipulated and finally, the third is that financial instruments have been mis-used. The second and third consequences flow from the loss of soul and turning the pursuit of profit into the primary purpose.

Qwest SWAPS

Another example deals with the trades of infeasible rights of use (IRU). One company sells a right to use unused broadband to another company who sells its own unused broadband back to the first company. Why would companies do this? No products are exchanged and nothing is used. They were done specifically to cook the books.

Let's look at a particular example.

Global Crossing (GX) in 2001 engaged in a \$100 million IRU swap with Qwest who used the IRU swap technique on its own. During the first three quarters of 2001, Qwest sold \$870 million of capacity and bought \$868 million of capacity to and from the same parties. These swaps appeared to be round-trip transactions, which served no purpose other than to inflate Qwest's revenues. Each company recognized the income generated in the quarter earned and deferred the expense through capitalizing them, as an asset, and logging the cost as recognized expense over time, resulting in an inflated bottom line by both companies. Arthur Andersen Auditors approved of this technique. A year later, on July 28, 2002, Qwest would file a billion-dollar-plus restatement, admitting that it had improperly recorded revenues from these trades.

Global Crossing made other SWAPS. When Roy Olofson, (Vice President of Finance at GX) conducted a study to assess the value of the firm's swaps, it was concluded that less than 20% of the swaps actually could be added to Global Crossing's network. Global Crossing found it was doing swaps that had no real business use. According to Olofson's study, \$720 million of Global Crossing's \$3.2 billion in revenue during the first half of 2001 was from illegitimate swaps. Olofson also claimed that thirteen of eighteen of these swaps occurred during the last two days of the quarter, making it appear that Global Crossing was using the IRU swaps as a last-minute way to create fictional earnings it needed to meet quarterly expectations. Olofson did not approve of these SWAPS or these accounting methods.

There are, of course, legitimate uses for SWAPS as well as purposes for other activities and products such as hedges, Special Purpose Entities and derivatives, such as to handle risk management. But those purposes are forgotten when accumulation for its own sake is pursued and rewarded. But why have such practices become almost commonplace?

How Did We Get Here? The Origin of Capitalism and Its Ethic

I want to suggest that we got there through the adoption of an idea which I will call the Principle of Capitalism. That principle holds that the primary and only responsibility of business is to maximize profit for the shareholder. It was popularized by Milton Friedman, but had its origins in Adam Smith.

Adam Smith in *The Wealth of Nations* asserted in a famous quotation that “It is not from the benevolence of the butcher, the brewer or the baker, that we expect our dinner, but from their regard to their own interest...”

Smith continues with the famous passage that introduces the Invisible Hand.

We address ourselves not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages. He generally indeed, neither intends to promote the public interest, nor knows how much he is promoting it... and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention.¹⁷

The implication of Smith’s statement is that the self-interested pursuit of profit promotes the common good. All you need to do in order to benefit society is to look out for yourself. If one were to look at the quotations above outside of the context of Smith’s body of work, this is a likely interpretation. However, Smith did not believe that human beings were simply self-interested individuals who only looked out for themselves. He did believe in the importance of sympathy for others and consideration for their interests.

Howsoever selfish man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it... That we often derive sorrow from the sorrow of others, is a matter of fact too obvious to require any instances to prove it...¹⁸

Smith states very clearly, people should work to advance their own interests. “Every man... is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men.”¹⁹ But where the ellipses appear in the above quotation, he adds the constraint, seldom quoted... ‘as long as he does not violate the laws of justice.’ That means justice considerations are the limit to any self-interested pursuit. How did that get forgotten?

¹⁷Adam Smith, *The Wealth of Nations*, Oxford University Press, 1976 [1776], pp. 26–27.

¹⁸Adam Smith, *The Theory of Moral Sentiments* (1759; reprint New York, Prometheus Books, 2000, I.i 1).

¹⁹Adam Smith, WN, IV, ix, 51.

Ethics is Taught

Adam Smith may be, perhaps, the most misunderstood academic frequently taught in the academy today. While his famous quotation concerning the importance of self interest is often cited, his insistence on the limitation of justice in this pursuit is frequently forgotten. While Milton Friedman recommended pursuing one's interest as far as the law allows, Smith advocates something quite different. As we have seen, we are permitted, and even encouraged, to pursue our own interests, *as long as we do not violate the laws of justice*.

However, in today's business schools, the emphasis is on Friedman's approach, forgetting Smith's constraint, and the pursuit of profit is perhaps taken even further than Friedman would take it. It seems that our up and coming business students are not taught to seek their interests insofar as the law allows, but insofar as they can get away with it. The idea is not to adhere to the spirit of the law, but to walk the fine line between adhering and violating the law, to obey the law to the letter alone and no more than that. Violating the spirit of law means doing things like seeking creative ways around the tax code, doing the bare minimum in terms of providing education to your employees on diversity and harassment or instituting disclosure materials which are technically appropriate, but which you know will be singularly unhelpful to the consumer. And most importantly, we train our young business leaders to hide behind the law (or behind their legal counsel) if they are ever questioned.

Ideas have consequences, and Friedman's ideas are, by and large, the ones taught in most business schools. Business schools, in both their lessons and their culture, often reflect the belief that the purpose of business is to maximize profit or maximize shareholder wealth. The prediction of Weber about capitalism seeking ever increasing profits seems to have taken over and we have the soul of the business culture, the *Zeitgeist* (spirit of the age) which is to maximize profit or wealth.

Since the business school as the "Provider of Executive Talent" teaches these imperatives to its students, one can say that the business schools teach a "form of life." In the culture of the business school, the primary fiduciary responsibility of any executive of a publicly held company is to maximize wealth or profit. Such a view reduces the function of managers and financial officers into a formal abstraction, in the sense that the products the managers produce and the services that they provide are irrelevant as long as they bring in the profit.

The dominant view of the purpose of business is not neutral. No view of purpose is. Such a view legitimates the institutional practices of business, and in this case, does so to such an extent that even if we are opposed to the practices we do not have the language to critique them. Thus we are faced with an anomaly in that even those who would claim that the purpose of business is to produce goods and services slip into talk about business which legitimizes some of the behavior that they would not approve of in theory. We are held captive to such an extent that even those who critique the dominant view fall under its spell. To take some examples, note how Laura Nash, who would otherwise be a proponent of the production of goods and services as the point of business, talks about the purposes of business in an unguarded

moment, “The good corporation is expected to avoid perpetrating irretrievable social injury while focusing on its purpose as a profit-making institution.”²⁰ Or note how Tom Donaldson in a discussion format talks of the purpose of business, “The fundamental purpose of business is to make a profit for its owners, but I would say that’s not its only purpose.”²¹

How widespread is this maximization of profits view? The fact that it shows up in our ordinary discourse is clear enough. But it also shows up in our learned discourse. In any standard financial management text the goal of the firm is taken for granted. There is evidence of this approach in the very textbooks that students in business schools use. Consider the following quotations from three texts chosen at random. “Three economic goals guide the strategic direction of almost every business organization. Whether or not the mission statement explicitly states these goals, it reflects the firm’s intention to secure survival through growth and profitability.”²²

But notice, the words “Survival, Growth and Profitability” are mere abstractions. Setting the concept of profitability aside as an explicit goal, consider the other two goals: survival and growth. One needs to ask, survival and growth for what?

Consider a second example, “Good managers find ways to make their organizations successful. The ways to do this are to build competitive advantage in the forms of cost competitiveness, quality, speed, and innovation....The idea is to keep you focused on a type of ‘bottom line’ to make sure you think continually about ‘delivering the goods’ that make both the manager and the organization a competitive success.”²³ In this quotation, we can see clearly that the goal is competitive success and this means to capture the “lion’s share” of the market. This is important since larger market share translates into larger profits. It is important to note that success is not defined as making useful products or providing helpful services, the point is to beat out the competition.

The third and final example is found in *Complexity and Management*. In that text, professor Griffen emphasizes the importance of efficiency and effectiveness as goals, without telling us the goals or purposes to which this efficiency and effectiveness should be applied. We can get a hint because Griffin uses as examples of success *Fortune*’s “Most Admired Companies”, which are all for-profit companies and *Business Week*’s “Best Performing Companies” which are also all for profit companies as well.

²⁰Laura Nash, “Ethics without the Sermon” *Harvard Business Review*, November–December, 1981, p. 89.

²¹Tom Donaldson, “Transcript of a Discussion by the Panel of Judges, American Business Ethics Awards.” November 16, 1993. Published in *Chapter Handbook for Ethical Guidance and Professional Standards Committee*. American Society of CLU and ChFC. 1996.

²²Pearce J. A. and R. B. Robinson, *Formulation, Implementation and Control of Competitive Strategy*. Eighth Edition, McGraw Hill, 2003. p. 26.

²³Bateman, T. S. and S. A. Snell. *Management: Competing in the New Era*, 5th edition, McGraw Hill. 2003.

We can conclude that profit maximization is the goal that reigns and is taught in most business schools and that this goal permeates the culture of the business schools. It teaches executives to turn entities into merely financial entities. It is perhaps for that reason that Vanguard will not hire MBA's. They will send employees off to get an MBA after they have learned the company and its products, but not before. For Vanguard, concerned with the good of the consumer, it is better someone learn the particulars of an industry and company, and what it's for, before they begin to apply abstract principles to operations.

What Is the Purpose of Business?

We have indicated that we believe ideas have consequences and that the ideas being taught in business schools and perpetuated in board rooms and in the public forum in general by investments experts are wrong headed. Our further analysis, which we have demonstrated elsewhere,²⁴ is that this wrong-headedness rests on a fundamental mistake about what ethical theorists call justificatory whys and explanatory whys.

If I ask why you did something, I might be asking for an *explanation* of your action. In other words, I may be looking for the psychological motivation behind your action. However, in asking why you did something I might be looking for a *justification* of your action. Ethicists call this the difference between explanatory whys and justificatory whys. So you can explain that you helped a stranger because it made you feel good, or that you helped a stranger because it was the right thing to do. Purposes or worthwhile goals provide justificatory reasons for doing something. But we are all aware of the fact that people can do things that are the right thing to do for a multiplicity of motives. For example, I can give alms to get a tax break, or to feel good, or to salve my conscience.

When one looks at the discussion of the purposes of business and sees these purposes accounted for as the maximization of profit, it is clear that this discussion is referring to Smith's insistence that it is not from benevolence that the baker bakes our bread, but from his own interest. But the "from benevolence" is an explanation, not a justification of the baker's motives. One could ask why bread is made, pre-scinding from considerations of the baker's motives. The answer to that would be something like, "bread is a staple, necessary in most cases, for living. We make bread so people can eat." That's the purpose of bread.

In the case of business, Adam Smith has two accounts. The first talks about motivation and claims that participants in the markets act from self-interest. But elsewhere he talks about the overall purpose of trade and production. That is the second account and here he clearly asserts that all this activity is for the sake of producing goods for consumers. Thus, we see that the justification of all this activity is the

²⁴ Ronald Duska, "The Why's of Business Revisited", *Journal of Business Ethics*, vol. 16, No 12, 1997, pp. 1401–1409.

production of goods and services, and the motivation is self-interest. To mix motives up with purposes is like confusing the destination of a train, say London, with the engine of the train, which moves the train to London.

This is why Smith is perfectly consistent when he says, “Every man... is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men as long as he does not violate the laws of justice.”²⁵ Justice equates with the well ordered society, in the sense that each man has what he ought to have (what he deserves) and in the well ordered society, the purpose of business is to create goods and services, i.e. to benefit society. When the pursuit of our own interest begins to harm society and when the pursuit of profit begins to harm society, this pursuit must be checked. Selfishness, which is self-interest at the expense of another, is a moral flaw. But a view that gives self-interest primacy must inevitably sacrifice justice to the drives of self-interest.

The Professions

What holds for businesses holds also for professions. Once the primary purpose of a profession is overridden by concerns to make money or profit, the profession becomes corrupted. One must ask the purpose of the professions, and if the purpose of the profession is to benefit society, then engaging in that profession obliges one to fulfill its purpose. If this purpose is ignored, society is damaged. This has been clearly shown in recent accounting scandals. Consider the profession of accounting. The function and role of the accountant is to give as accurate a picture as is possible of the finances of companies.

According to John Bogle, the purpose of accounting which is a public good, protecting sound securities markets, can be summarized in the following way:

Sound securities markets require sound financial information. It is as simple as that. Investors require—and have a right to require—complete information about each and every security, information that fairly and honestly represents every significant fact and figure that might be needed to evaluate the worth of a corporation.

Bogle continues, to produce this public good, the accountant must dedicate himself or herself to the public good, and not to any private interest.

It is unarguable, I think, that the independent oversight of financial figures is central to that disclosure system. Indeed independence is at integrity’s very core. And, for more than a century, the responsibility for the independent oversight of corporate financial statements has fallen to (the) public accounting profession. It is the auditor’s stamp on a financial statement that gives it its validity, its respect, and its acceptability by investors. And only if the auditor’s work is comprehensive, skeptical, inquisitive, and rigorous, can we have confidence that financial statements speak the truth.²⁶

²⁵ Adam Smith, *The Wealth of Nations*, IV, ix, 51.

²⁶ John C. Bogle, “Public Accounting: Profession or Business?” NYU, 10/16/00.

Arthur Andersen's Failure

In recent history Arthur Andersen, forgot its public purpose, and we would argue lost its soul. Lynn E. Turner (SEC) says this quite clearly.

As an auditor, Arthur Andersen had a clear mission, to attest that the financial statements they were auditing reflected what was really going on in the company. That mission was shunted aside in the name of fees.²⁷

The evidence is overwhelming that Andersen turned its attention away from its auditing function and made it secondary to the more profitable consulting function. Dependence on those consulting functions compromised the independence of Andersen in attesting to the reliability of their clients' books. Turner puts this succinctly:

Where as recently as the early 1980's, the accounting firm's principal source of revenues were from the performance of audits, a survey of 563 of the Fortune 1000 companies showed that for every \$1 of revenues generated for the performance of the review and audits of the quarterly and annual financial statements in 2000, \$2.69 in revenues were generated by providing other services. Those other services accounted for 73% of total fees billed by the accounting firms to the companies surveyed.

In accord with our analysis, it is clear what happened. Andersen, in its quest to accumulate wealth, forgot what its purpose was and lost not only its soul, but its very existence. They had forgotten why the company was founded. The value of the accountant is in the public purpose for which the accountant operates. The demise of Andersen is predicated on its loss of its soul. It is ironic that in his 1932 Lecture on Business Ethics Arthur Andersen said the following:

To preserve the integrity of his reports, the accountant must insist upon absolute independence of judgment and action. The necessity of preserving this position of independence indicates certain standards of conduct. If the confidence of the public in the integrity of accountants' reports is shaken, their value is gone.

The public purpose of accounting is clear. The auditor is to be the watchdog and protect the public by assuring that financial statements reflect the worth of the company. The unchecked search for profit will lead to a temptation and conflict of interest that inevitably will cause the betrayal of the primary purpose, and the betrayal of the purpose implies forgetting what one is and losing one's soul. The company may (it did not in Andersen's case) continue to exist, but it will not exist as the company it was, nor will it live as a company in the expectation of doing what it was meant to be. Literally the meaning that gave it its identity is gone.

²⁷Lynn E. Turner, "Independence: A Covenant for the Ages" at International Organization of Securities Commissions, Stockholm, Sweden, June 28, 2001.

Chapter 14

Corporate Culture and Organisational Ethics



David Smith and Louise Drudy

Abstract Organisational ethics and its impact on corporate culture has become an area of serious investigation for many organisations. Health care organisations would appear to be an appropriate example in which to investigate the application of organisational ethics as there are three identifiable constituencies, patients, health care professionals and health care managers. All three constituencies have an overall common aim – the delivery and reception of quality health care. Yet the way in which this is achieved can often involve conflicts, which if not resolved can undermine the corporate culture and the ethical values of the organisation. This paper provides an answer to a critical question: How can health care managers and health care professionals better carry out their organisational ethical oversight?

Keywords Corporate culture · Organisational ethics · Health care organisations/managers · Patients · Ethical oversight

Introduction

Organisational ethics and its impact on corporate culture has become an area of serious investigation for many organisations. An interesting example of this is the document entitled *Acute Care Accreditation Scheme: A Framework for Quality and Safety* issued by the Irish Health Services Accreditation Board in 2005. In this, the question of corporate culture and organisational ethics is addressed. They state that ethical issues relating to business, professional behaviour and care/service delivery

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must be dealt with through defined structures and processes to ensure appropriate adherence to ethical responsibilities. All ethical decisions must be in keeping with best practice, legislative requirements and the organisations values.¹ This statement focuses on the core elements in creating a corporate culture and the essential characteristics of organisational ethics. It also alludes to the potential areas of conflict which can arise between different constituencies within an organisation and gives some broad directions on how these might be addressed.

Health care organisations would appear to be an appropriate example in which to investigate the application of organisational ethics as there are three identifiable constituencies, patients, health care professionals and health care managers. All three constituencies have an overall common aim – the delivery and reception of quality health care. Yet the way in which this is achieved can often involve conflicts, which if not resolved can undermine the corporate culture and the ethical values of the organisation.

Organisational ethics can be defined as the articulation, application, and evaluation of the consistent values and moral positions of an organisation by which it is identified, both internally and externally. These values are derived and developed within an organisational culture where the mission and vision of the organisation are consistent with its expectations for professional and managerial performance and consistent with the goals of the organisation as they are actually practiced. It also consists of a process or processes to address ethical issues associated with the business, financial, and management areas of the organisation. In addition organisational ethics deals with professional, educational and contractual relationships affecting the operation of the organisation.²

An organisation can be analysed formally by looking at the personnel arranged in a hierarchy of authority. Those in policy-making higher positions are regarded as professional managers. An informal examination looks at the culture which is the glue of the organisation. This includes the values and beliefs of all participants as well as the internal and external interpretation of their beliefs. These may include the difference between policy and actual practice and the psychological predisposition of the members of the organisation.

The above definition can be applied to most organisations. However it is in the actual application of these values to a particular organisation that some of the strengths and weaknesses begin to emerge. Consideration of ethical issues in health care institutions has recently become an important and frequent part of discussions around health care delivery. A number of factors have contributed to this growth including, research into the mapping of the human genome, techniques for assisted reproduction and improved life support which offer new opportunities for treatment but which also raise ethical concerns. Recent official government investigations in

¹Irish Health Service Accreditation Board (2005), *Acute Care Accreditation Scheme: A Framework for Quality and Safety*, p. 86.

²E. Spencer, A. Mills, M. Rorty and P. Werhane, *Organization Ethics in Health Care* (Oxford: Oxford University Press, 2000), pp. 5–14.

Ireland and the United Kingdom such as enquiries into organ donation and retention,³ HIV and hepatitis C infection in the blood transfusion service,⁴ the removal of organs of dead children at post-mortem examination without parental consent at Alder Hey,⁵ the paediatric cardiac surgery inquiry at Bristol⁶ and the Lourdes Hospital⁷ enquiry in Ireland, have all focused as much on the ethical integrity of clinicians and health care institutions as they have on clinical competence and professional management. While it is evident that support for health professionals on ethical issues in clinical care already exists in the form of guidelines from national bodies and professional organisations, the experience in North America and in the United Kingdom has demonstrated that local support services may be needed to provide assistance that is responsive and relevant to local circumstances. While cases like these unfortunately focus on fraud and abuse as central issues in ethics these scandals have prompted hospital management to ask what more should they be looking for?⁸

How can health care managers and health care professionals better carry out their organisational ethical oversight? Patients and governments demand quality services so the effectiveness of health technology and the appropriateness and applicability of new technology needs to be continuously assessed for public confidence.

Ethical Values

Organisations comprise people with different philosophical values, cultural adherences and religious beliefs. To address these divergences different professional organisations within health care have developed general principles to examine ethical issues which require assessment. These principles are routed in the major ethical theories of utilitarianism, Kantianism, and virtue ethics. Before discussing the application of organisational ethical criteria it may prove helpful to examine these general principles which influence health care delivery and business practice.

³<http://www.dohc.ie/publications/madden.html> (Accessed: 22 October 2007).

⁴<http://www.hepccomptrib.com/index.php> (Accessed: 22 October 2007).

⁵<http://www.rlcinquiry.org.uk/> (Accessed: 22 October 2007).

⁶http://www.bristol-inquiry.org.uk/final_report/rpt_print.htm (Accessed: 22 October 2007).

⁷<http://www.lourdesinquiry.ie/> (Accessed: 22 October 2007).

⁸P. Manning and D. Smith, (2002) "The Establishment of a Hospital Ethics Committee", *Irish Medical Journal* Vol. 95. No. 2. p. 54.

Professional Codes

*Health Care Ethics*⁹

To address the philosophical, religious and cultural diversity within society health care has developed a set of general principles to serve as an analytical framework of basic principles that express the general values underlying the rules in common morality and guidelines in professional ethics. Three general moral principles have proved to be serviceable as a framework of principles for health care ethics: respect for autonomy, beneficence, and justice. Yet it is important to note that these principles should not be construed as jointly forming a complete moral system or theory, but rather providing the beginnings of a framework through which we can begin to reason about problems in health care ethics.

Autonomy can be defined as deliberate self-rule and is a special attribute ascribed to all moral agents. Respect for autonomy is the moral obligation to respect the autonomy of others in so far as such respect is compatible with equal respect for the autonomy of all potentially affected. In health care respecting a person's autonomy has a number of important implications. How much information needs to be given to a patient before commencing a procedure or treatment? Can patients request procedures which the health care professional finds ethically repugnant and does the health care professional have to comply with this request? Examples of this would be the prescribing or dispensing of contraceptive medications. Or the assisting of a patient to die in what is termed physician assisted suicide. Can a patient request costly interventions which in the judgement of the health care professional would be futile treatment? Respecting autonomy also raises important questions for confidentiality. This is particularly relevant with regard to genetic information. Does a person's family have a right to this information if it has potential implications for their own health? Questions continually arise as to what kind of information an employer or insurance company is entitled to about a particular person.

The principle of beneficence is closely linked to the principle of non-maleficence as found in the traditional Hippocratic moral obligation of medicine to provide net medical benefit to patients with minimal harm, that is, beneficence with non-maleficence. Health care professionals need to ensure that they can provide the benefits they profess to be able to provide. They need to make sure that they are offering each patient net benefit. To do this they must respect the patient's autonomy for what constitutes benefit for one patient may be harm for another. Although there are some general norms of human needs, benefits and harms, people vary in their individual perceptions and evaluations of their own needs, benefits, and harms. Jehovah's Witnesses' attitudes to blood are a vivid illustration of this variability.

⁹T. Beauchamp and L. Walters, (eds), *Contemporary Issues in Bioethics* (New York: Wadsworth Publishing Company, 1999), pp 18–23. For a more detailed analysis of these principles see R. Gillon, (ed), *Principles in Health Care Ethics* (New York: John Wiley & Sons, 1994), pp. 1–334.

Another example would be a decision by an elderly person to forego aggressive therapy for cancer. The reason given is that they do not want to put themselves through a potentially debilitating regime of treatment which would significantly diminish their quality of life.

Thus even to attempt to benefit people with as little harm as possible requires, where possible, discovery of what the proposed beneficiary regards as a benefit, regards as a harm, and regards as the most beneficial and least harmful of the available options. Even if the person agrees that one available intervention would be more beneficial than another, he or she may simply wish to reject the beneficial intervention. It may be because of an idiosyncratic basis of assessment of harm – for example, the autonomous belief that a blood transfusion will lead to eternal damnation or some equivalently massive harm. Or it may be a relatively trivial assessment.

When justice is considered, respect for autonomy must play an important role. Justice can be subdivided into three categories: fair distribution of scarce resources (distributive justice) respect for people's rights (rights based justice) and respect for morally acceptable laws (legal justice). In health care distributive justice cannot avoid a discussion of health economics and its application on a global, national and individual level. Legal justice and respect for morally acceptable laws have generated a lot of discussion recently when the issue of the involvement of doctors in torture began to be addressed. There is evidence that health care professionals have failed to report to higher authorities wounds that are clearly caused by torture and that they have neglected to take steps to interrupt this torture. In addition, they have turned over prisoners' medical records to interrogators who could use them to exploit prisoners' weaknesses or vulnerabilities. There is also evidence concerning the delay and possible falsification of death certificate of prisoners who have been killed by torturers.¹⁰

Business Ethics

There is no special code of business ethics; rather there are questions and dilemmas, about remuneration, whistle-blowing, product safety and so on, which arise mainly in the course of business activity but which can be dealt with in terms of moral principles. And there are values which we intuitively recognise as such. Honesty, reliability, just and fair dealing are recognised as correct behaviour, just as lying, cheating, stealing, cowardice and irresponsibility are recognised as incorrect behaviour. Breaking agreements, treating people unjustly, telling lies, taking more than one's due are wrong – in business as in any other aspect of life.

However there are some moral principles which are particularly relevant to business dealings. The first principle to consider is common decency. Although the more

¹⁰R. Lifton, "Doctors and Torture" *New England Journal of Medicine* No. 5. Vol. 351:414–416.

spectacular and public examples of unethical behaviour in business – insider trading or various kinds of corporate tragedy¹¹ – are the issues which make the headlines, it is in the normal, everyday activities of the business that ethical principles need most to be applied. It is largely in how people treat other people within the company, the manager, the secretary, retailers and so on, that the ethical climate of the business is set. Without this awareness of personal relationships, the moral context of the business is lost and the grosser forms of unethical behaviour can emerge almost unchallenged. Because of this, one of the basic principles of business ethics is simply that of *common decency*. This is, the maintenance of standards of ordinary decent behaviour by all to all associated with the business. It is as important to be honest with suppliers as it is with shareholders and to be as decent with customers as with employees.

Common decency does not mean being nice to people or being altruistic but treating people in a way which allows their legitimate expectations to be met, so liberating them to pursue their roles in the business in the secure knowledge that their contributions will be recognised and their expectations fulfilled. Decency means honesty and responsible treatment of those with whom one comes in contact and this emerges as a principle from the identified aim of the business itself. If stakeholders cannot see that they will be dealt with honestly and in a responsible manner, there is little reason why they should commit themselves to the success of the business.

The second principle to consider is justice. This value emerging from the aim of business itself is justice in the distribution of rewards, privileges and responsibilities. Distributive justice relates rewards to contribution so that, as far as possible, those who contribute most to the business and the fulfilment of its aim will be rewarded proportionately more than those who contribute less. The purpose of a business is to achieve long-term owner value, and pay and promotions should reflect contribution to this.

The unique development of a declaration on business practice¹² by Christians, Muslims and Jews highlights four key concepts which are found in the literature of these faiths and form the basis of any human interaction. They are: justice (fairness), mutual respect (love and consideration), stewardship (trusteeship) and honesty (truthfulness). In applying them to business practice the three faith traditions state that justice can be defined as just conduct, fairness, exercise of authority in maintenance of right. Fair dealings between each other and between believers and others is constantly reiterated in the Scriptures. The second principle – mutual respect or love and consideration for others – is also inherent in the moral teachings of each

¹¹ Corporate tragedy refers to all disasters which befall businesses – from an explosion in a plant to an aeroplane crash – in which employees, customers or members of the public are killed, injured or otherwise put at risk. The Bhopal disaster in India in 1984 is a good example as are those of Enron and Parmalat.

¹² *An Interfaith Declaration. A Code of Ethics on International Business for Christians, Muslims and Jews* 1993 Amman, Jordan. http://astro.temple.edu/~dialogue/Codes/cmj_codes.htm (Accessed: 22 October 2007).

religion. The word love has many meanings in most languages. But, as is clear from the reading of the Scriptures, the God of justice and mercy is also the God of love. What the Scriptures express as love in business means a mutual respect or reciprocal regard – ‘love thy neighbour as thyself’ – that exists between two individuals. The application of this has come to mean that self interest only has a place in the community in as much as it takes into account the interests of others. “My neighbour” in the business context can be defined as any person (individual or corporate) with whom the organisation comes into contact in the course of business life. Of paramount importance in this respect is the employee.

A third principle shared by all three faiths is that of *stewardship* (trusteeship) of God’s creation and all that is in it. The Scriptures testify to the beauties and wonders of nature as signs of God’s goodness and providence. Peoples’ use of creation is determined as stewardship and they are charged with its care and proper use. The fourth principle inherent to the value system of each of the three faiths is *honesty*. It incorporates the concepts of truthfulness and reliability and covers all aspects of relationships in human life – thought, word and action. It is more than just accuracy, it is an attitude which is well summed up in the word ‘integrity’.

In general, business ethics will be served by the principles of decency (which includes honesty, responsibility and reliability) and justice (which includes fairness). These values will be the ones consistently referred to in analysing business ethics problems. They may have slightly different emphases in different contexts but they are generally applicable in all business situations.

The review of the principles which govern business ethics and health care ethics demonstrates a number of common features. But more importantly it also highlights the potential for diversity and conflict. Business ethics tends to put the aim of the company or organisation as primary while health care tends to place the emphasis on the individual patient. What happens when the needs of the individual conflict with the needs or plans of the organisation? Another potential area of conflict is between the values of the managers and health care professionals and the Mission or Values of the organization.

Organisational Structuring

In Ireland, as in many other parts of the world, most health care organisations have undergone a process of accreditation of their practices. Private hospitals have been accredited by the international Joint Commission on Accreditation of Health Care Organisations.¹³ The public sector has been accredited by the Irish Health Services Accreditation Board.¹⁴ The Joint Commission’s 2003 document does not have a

¹³ <http://www.jointcommission.org/> (Accessed: 22 October 2007).

¹⁴ The Acute Care Accreditation Scheme – Standards and Guidelines: 2nd Edition. Irish Health Services Accreditation Board 2005.

specific chapter on organisational ethics but it is broadly defined as those aspects of the operation of the health care organisation that have to do with the ethical responsibility of the organisation itself to conduct business and patient care practices in an honest, decent and proper manner.¹⁵

Organisational Ethics is addressed more specifically in the section entitled “Leadership and Partnership of the Acute Care Accreditation Scheme” of the Irish Health Services Accreditation Board. It states that ethics provides standards and rules for conduct; it interprets and clarifies fundamental values, virtues, and principles that have proven themselves over the centuries to be reasonable and beneficial to humankind. Health care facilities may encounter substantive ethical problems such as maintaining their mission or institutional autonomy in the face of fiscal pressure, resource allocation, responding to the needs of the community, and changing structures of management. This qualitative information does not exhaust the list of substantive issues that are “ethical”; but they should be warnings that when an issue falls into these areas there needs to be an ethics review.

Several important developments concern governance structures. These include cost containment, prospective payments and reduced reimbursement, length of stay, competition, and bed supply. The problems raised by these issues have threatened the ability of hospitals to pursue their mission-related activities. Additionally hospitals have become the site of many complex moral choices including life, death, and health care decision-making.

The “Leadership and Partnership Standards” are also concerned with organisation and management in relation to the changing needs of the community, the organisation’s partnerships and culture, governance, managing risk and resources. The intent of the organisational ethics section is to have defined structures in place to ensure ethical responsibilities are adhered to in keeping with best practice, legislative requirements and the organisation’s own ethical guidelines. Therefore, defined structures must be in place for dealing with care or service issues in care or service delivery these need to include ethics committees, education and training for ethical decision-making and non-compliance, complaints and evaluation.

Mission and Values

An essential aspect in the original definition of organisation ethics and in the standards of accreditation are mission and values. Most organizations have spent a significant amount of time developing their mission and value statements. An examination of four health care organisations in Ireland will identify these core values.

The Bon Secours Health System in Ireland (BSHS) is a private Catholic health care organisation. Its mission is to be a leader in Catholic Health Care in Ireland, to

¹⁵ Joint Commission, *Joint Commission International Accreditation Standards for Hospitals*. (2nd Edition, 2003).

care for the sick, the dying and their families within a Catholic ethos. In developing core values the BSHS states that the dignity and uniqueness of each person is recognised and they seek to provide high quality, holistic care which is characterized by compassion, respect, justice and hope while maintaining a patient friendly environment in their hospitals. Through their mission statement they hope to empower staff to reach their full potential, reach out compassionately to the community and be innovative and responsive to new developments in health care.¹⁶

Beaumont University Hospital in Dublin is a public hospital which states that it is a University teaching hospital with a mission to deliver best quality of care to patients. It goes on to state that it is continually working to develop and to improve the way care is delivered and to enhance the environment in which members of staff work.¹⁷

St Vincent's University Hospital in Dublin is a voluntary hospital.¹⁸ Its mission is to strive for excellence in meeting the holistic needs of patients in a caring and healing environment in which the essential contribution of each member of staff is valued. The values of human dignity, compassion, justice, quality and advocacy, rooted in the mission and philosophy of the Religious Sisters of Charity, guides the work in St Vincent's University Hospital. Within the foregoing context, the hospital makes every effort to maintain excellence in clinical care, teaching and research.

The Daughters of Charity Services¹⁹ for People with an Intellectual Disability give priority to people with the greatest need, and recognize that persons with intellectual disabilities possess a unique dignity and potential, and are committed to the promotion of justice and to develop this potential so that they can take their place in society in a meaningful way. Their core values are service, respect, excellence, collaboration, justice and creativity.

As can be seen from these four mission statements certain values are common to all of them. They include the dignity and uniqueness of the patient, a holistic vision of care which encompasses compassion, respect and justice. There is also emphasis on collaboration between different professional groups as well as the empowerment of the staff and a desire to show that staff members are valued. They include the element of research and teaching. They are all aspirational in that they want to deliver the best quality of care within their respective institutions.

What is also evident is that the ethos of the organization is fundamental to how the mission statement and core values are developed and implemented. An organization with a particular religious ethos does raise particular issues for the delivery of care. One of the most common issues which arises in some institutions with a religious ethos is the non-therapeutic sterilization of men and women. While the

¹⁶ Bons Secours Ireland <http://www.bonsecoursireland.org/> (Accessed: 22 October 2007).

¹⁷ Beaumont University Hospital, <http://www.beaumont.ie/> (Accessed: 22 October 2007).

¹⁸ St Vincent's University Hospital, <http://www.stvincents.ie/mission.html> (Accessed: 22 October 2007).

¹⁹ Daughters of Charity Services for People with Intellectual Disability, <http://www.docservice.ie/> (Accessed: 22 October 2007).

professional staff may be willing to deliver this service the ethos of the hospital does not permit it. Another example would be the provision of assisted reproduction techniques such as in vitro fertilisation. Recently there has been extensive debate regarding stem cell research in health care organisations which have a particular ethos.²⁰ Maintaining a particular ethos may be acceptable in a private facility in which the staff and patients are willing to accept the limitations imposed. But it becomes more polemical when the state is the major source of funding for the institution.

If the mission and values of an organisation are to be fundamental then they must influence the process to address ethical issues associated with the business, financial and management categories of health care as well as the professional, educational and contractual relationships affecting the operation of the health care organisation. To develop and maintain a positive ethical climate organisational ethical activities must encompass all these different aspects of the operation. It is here that there are areas of potential conflict.

The core principles of business ethics are common decency and justice. Yet health care organisations are unlike other, non-health-care-related businesses and organisations in several ways. They are not identical to health care professional associations and as organisations they are distinct from the professionals who provide medical care in these and other settings.

As a business, a health care organisation is distinctive in that the payer for services, be it the state or insurance company, is commonly not the “consumer” of the service provided. This means that the major decisions about access to and cost of health care interventions are at least practically made by an entity that may be more interested in cost distributions than in the availability and quality of interventions for individual patients.²¹ Examples of this would be the decision not to make certain drugs available to patients or to limit costly procedures which will only benefit a small number of patients.

In many other businesses, the role of each stakeholder (stockholders, customers, payers, employees, contractual partners, the local community, and the larger society), can be clearly identified. Along with this identification come mechanisms for each stakeholder to have appropriate decision-making authority in the aspects of the business that affect the stakeholder. This authority is maintained by the assigning of rights and responsibilities based on the particular role. This is made difficult in health care organisations because of the confusion of roles of the consumer (patient), the buyer or payer, the health care professional, and the manager. Organisational ethics must be able to address not only the often divergent interests of these individuals and groups, but also the role confusion, the markedly different levels of power and authority, and the greater level of social obligation of the health care organisation.²²

²⁰ BioEdge has a series of articles which summarise the debate <http://www.australasianbioethics.org> (Accessed: 22 October 2007).

²¹ E. Spencer, *op. cit.*, p. 9.

²² E. Spencer, *op. cit.*, pp. 12–13.

Traditionally professional health care ethics is based on the ideal that a health care professional should always be an advocate for the particular patient and act in that patient's best interest. The ideal of advocacy for individual patients has always been and continues to be a strong influence on the perceptions and reality of modern health care. Health care professionals, particularly doctors and nurses who are employees or who have other contractual arrangements with a health care organisation have their own sets of professional ethical obligations. These are independent professional standards, established by professional associations and cannot be controlled by the health care organisation, but are important factors in the care provided by any health care organisation. The ideal of advocacy for individual patients has always been and continues to be a strong influence on the perceptions and reality of modern health care.²³

A good example of a professional's responsibility to his or her patient is seen in *A Guide to Ethical Conduct and Behaviour* of the Medical Council of Ireland. An examination of the ethical guide demonstrates that the doctor's responsibility to his or her patient is always primary.²⁴ Similar views are also found in *The Code of Professional Conduct for each Nurse and Midwife*.²⁵

Having briefly examined the role of the professional health care manager and the health care professional, we turn now to a third important constituent, namely, the patient. In different countries patients have formed organisations which demand that their rights are recognised in areas which were traditionally left to health care professionals. Patients' rights movements have addressed important issues such as the process of informed consent and refusal, truth-telling and confidentiality. They have also been active in decision-making concerning futility of care and end of life decision-making. Individual access and allocation of resources have also been high on their agenda.

Health care managers are obliged to follow the rules of business and to put the good of the organisation to the forefront. They are also responsible to governmental agencies and the insurance industry for the way their institutions are administered. Health care professionals, on the other hand, have traditionally put the good of the individual patient to the forefront. This could lead to a clash of values between management and health care professionals. The patient as a consumer is another interested party. Thus a three-way conflict can arise between the patient, health the care professional and management or a two way conflict between the patient and management. The most obvious area of potential conflict is in the allocation of resources. Areas where disputes commonly arise are in the area of transplant surgery, the management of Intensive Care Units, expensive experimental surgical procedures, recruitment of expertise which may not be a priority health need and care of the elderly and the prescription of expensive medication.

²³ E. Spencer, op. cit., pp. 10–14.

²⁴ Medical Council, *A Guide to Ethical Conduct and Behaviour* (Medical Council, 2004).

²⁵ An Bord Altranais, <http://www.nursingboard.ie/> (Accessed: 22 October 2007).

Yet a health care organisation's primary mission is to deliver health care to patients or a defined patient population. In health care, organisational ethics is the integration of patient values, business ethics and professional ethics. Organisational ethics must work to integrate these perspectives into a unified organisational programme that provides and sustains a positive ethical climate within each health care organisation. To achieve this, the organisation must institute processes to ensure that this definition is understood and advanced by all in the organisation.

One of the ways of ensuring that this process of integration is activated is through the establishment of Clinical Ethics Committees.²⁶ These committees can address the threefold dimension of the organisation – patients, professional bodies and business. Generally these ethics committees, working within the mission and values of the organisation, commit themselves to the following functions: to provide support, consultation and clarification on emerging ethical issues in the delivery of contemporary health care; to respond to appropriate requests for case consultation; to provide assistance and guidance in the development of protocols and procedures to members of departments and multidisciplinary patient care teams; to provide education and reflection on ethical issues in health care as well as guidance in the ethical aspects of the development of policies and procedures within a hospital; to be a resource to staff, patient, doctors and the health care team; to ensure that all decision-making remains where traditionally it has been, i.e. with the patient, family, doctor and the health care team.

These committees have addressed a number of core issues which arise. Examples of this would be the issue of consent and confidentiality. They would also examine issues regarding Do-Not-Resuscitate directives. Issues concerning the allocation of resources are often examined. Access to cosmetic surgery is often discussed under the remit of the allocation of resources. Invasive cosmetic surgical operations performed on healthy bodies for the sake of improving appearance lie far outside the core domain of medicine as a profession dedicated to saving lives, healing, and promoting health. These cosmetic procedures are not medically indicated for a diagnosable medical condition. Yet they pose risks, cause side effects, and are subject to complications, including pain, bruising swelling, discoloration, infections, formation of scar tissue, nerve damage, hardening of implants, etc.²⁷ Moreover, cosmetic surgery is a consumer-orientated entrepreneurial practice, heavily promoted by advertising. In an acute hospital cosmetic procedures can make heavy demands on already stretched resources.

In some health care organisations which have a particular religious or cultural ethos clinical ethics committees also attempt to ensure that the ethos of the organisation is maintained. This can be particularly difficult for a number of reasons. If the ethos of the organization prohibits certain procedures which are perfectly legal

²⁶ It is necessary to draw a distinction between Research Ethics Committees which approve therapeutic and non-therapeutic research and Clinical Ethics Committees. Clinical Ethics Committees are also called Ethics Forums, Ethics Committees and Service Ethics Committees.

²⁷ K. Davis, *Reshaping the Female Body: The Dilemma of Cosmetic Surgery* (New York: Routledge, 1995), 27–8.

in the State, how does it reconcile the state funding which it receives? Another issue which arises is the withdrawal of treatment from patients. If the clinical judgement is that the patient will not survive without assisted ventilation but the ethos of the institution demands that this be maintained, who makes the final decision? Often in circumstances like this the ethics committee's role is to review the ethos and the current situation and attempt to give advice which is beneficial to the patient. In many instances the ethics committees are seen as the interpreters of the ethos.

Some clinical ethics committees also see a role for themselves in conflict resolution between various constituencies. If developing human flourishing is understood to be an integral part of their functioning, then an ethics committee can ensure that by developing a good ethical environment the organisation will project itself to the public as an ethical organisation which is good for business.

Conclusion

If organisational ethics is to have real meaning and the ability to carry out its mandated tasks, it must be based on a mission and a vision of the ethical climate under which the organisation defines itself by its ethical values. The organisation must institute processes to ensure that this definition is understood and advanced by all in the organization. This requires integrating and supporting patient, business and professional perspectives and mediating among them when integration or mediation is required to advance a positive organisational ethical climate.²⁸

²⁸ E. Spencer, *op. cit.*, p. 14.

Chapter 15

Values in the Marketplace: What Is Ethical Retailing?



Paul Whysall

Abstract Retailing is pivotal to modern societies. It provides basic goods for subsistence, gives access to items we consume to define our individuality, anchors town and city centres, allows new technologies to enter society, offers substantial employment and underpins a competitive economy. In such ways, retailing raises major ethical questions, yet remains largely unregulated, with market forces usually being assumed to work freely and beneficially. Despite this market orientation, recent years have witnessed growth in forms of retailing that claim a higher moral position: Fair Trade initiatives, green retailing, non-animal tested products, ‘no sweat’ apparel, ethically-traded goods. This chapter places retailing in a wider context by addressing four questions:

- Why have ethical issues become prominent in retailing at this particular time?
- What philosophical/conceptual bases exist for addressing ethical issues in retailing?
- Are ethical issues and concerns currently arising in retailing addressed by those bases?
- How, then, might we conceptualise ethics in retailing?

Keywords Ethics in retailing · Values · Market place · Philosophical and conceptual bases · Competitive economy

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- How, then, might we conceptualise ethics in retailing?

In answering these questions, examples from current retail practice are offered and discussions are linked to wider literatures where more detail can be found.

Why Have Ethical Issues Become Prominent in Retailing at this Time?

Mahoney (1994) suggested four responses could be given to the question: 'What makes a business company ethical?': appearing ethical was fashionable; external pressures encourage companies to be more ethical; appearing ethical would prove profitable; and "the obvious ethical reply, that it is considered the right thing to do". Mahoney contended a company would only be acting ethically if its reasoning was ethically based, begging the question what are the 'right' ethical grounds, even if, as he suggested, consequential considerations were excluded.

All four reasons can be evidenced in modern retailing. Undoubtedly a fashion effect accompanies some quasi-ethical initiatives in retailing. Web searches reveal many press and magazine articles on the topic of 'ethical chic'. When The Body Shop showed the profitability of non-animal tested, environmentally friendly products, many competing retailers quickly jumped onto that bandwagon with similar ranges. Although critics portrayed this as superficial 'Greenwashing' (Entine 1995), a fashion for ethical initiatives was evident.

External pressures on retailers to act ethically are numerous. Campaigns have highlighted animal testing of products, trading with 'oppressive' regimes, exploitation of cheap labour in developing countries, selling unhealthy foods, and so forth. The internet facilitates protest activity, as sites such as Corpwatch.org demonstrate. Such campaigns do not just exist on the fringes of society. In Britain, the charity Oxfam has campaigned against sweatshop clothing retailing, while Christian Aid targeted supermarkets' Third World sourcing policies (Whysall 2000a). Recent movies such as 'Super Size Me' and 'Wal-Mart: the high cost of low price' suggest anti-retailer messages may have a widening audience.

The mantra 'good business is good business' has not always been proven in terms of more ethical practices leading to improved profitability. When Moore

(2001) analysed UK supermarkets a negative relationship emerged with financial performance apparently deteriorating as social performance improved. Yet this somewhat tentative finding was contingent on several methodological issues, and a positive relationship emerged when financial performance was logged. However a 'business case' is often made to justify ethical trading initiatives. Do-it-Yourself retailer B&Q's first environmental review argued "it is in the interests of B&Q as a business to be an environmental leader" identifying "an opportunity to profit by being ahead of its competitors on a course that they will inevitably be required to follow" (B&Q 1993). Recently, the Chief Executive of one the UK's leading retailers argued "there is no question at all of any clash between our desire to be acknowledged as a leader in Corporate Social Responsibility and the commercial imperatives we face" (Boots 2005). If linkage between ethical and financial performance in retailing has proved elusive, the reverse is easier to show. Retailers have suffered seriously as a consequence of mistreatment of key stakeholders, with the negative fallout from 'stakeholder mismanagement' proving widespread and long lasting (Whysall 2000b).

Claims to be behaving more ethically because it is the 'right thing to do' will not convince sceptics who see such claims as either a 'cloak' hiding commercial motivations (Friedman 1970) or marketing-led image building (Entine 1995). Yet a *prima facie* case exists that retailers claim to be pursuing more ethical agendas, evidenced by claims in corporate communications (Whysall 2004). Thus Mahoney's framework for explaining the rise of ethics up corporate agendas seems specifically applicable to the retail sector.

What Philosophical/Conceptual Bases Exist for Addressing Ethical Issues in Retailing?

Historically, philosophers have reflected on retail transactions, if sometimes indirectly using retailing to exemplify wider points.

Plato's reports of Socrates' discourses set retailing in societal context. In *The Republic*, Socrates conceived a city state starting with four essential trades (weaving, husbandry, shoemaking and building) plus carpenters and smiths to make tools, and herdsman to tend animals. No city could be self-sufficient so trading surpluses had to be produced, requiring merchants to trade between cities, and sailors for transportation. Trading required a marketplace and money, leading to a need for retailers:

Suppose now that a husbandman or an artisan brings some production to market, and he comes at a time when there is no one to exchange with him – is he to leave his calling and sit idle in the market-place?

Not at all; he will find people there who, seeing the want, undertake the office of salesmen. In well-ordered States they are commonly those who are the weakest in bodily strength, and therefore of little use for any other purpose; their duty is to be in the market,

and to give money in exchange for goods to those who desire to sell, and to take money from those who desire to buy.

This want, then, creates a class of retail-traders in our State.

(From *The Republic*, 6, Jowett translation, at <http://plato.evansville.edu/texts/jowett/republic6.htm>)

Retailers, then, have an essential but unglamorous role.

To Aristotle, retailing was an essentially unethical activity. In the *Nicomachean Ethics* Aristotle explores just and unjust exchanges. Just exchanges are crucially seen as intermediate between the states of gain and loss.

Aristotle describes a builder and shoemaker seeking to establish proportionate equality between their products. Money exists to make diverse things comparable, enabling a mutually agreed number of shoes to be exchanged for a house. Mutual demand binds the system together (Maitland 1994); if people did not need others' products, there would be no exchange. Virtuous exchange occurring openly would not necessarily require a retail intermediary. However in the *Politics*, Aristotle directly addresses retailing:

... retail trade ... is justly censured; for it is unnatural, and a mode by which men gain from one another. (From <http://classics.mit.edu/Aristotle/politics.1.one.html> accessed 27 January 2008).

Objects have a 'proper', intended use for which genuine need exists, and a secondary 'improper' use. Exchange, which is 'natural', arises out of some having too much and others too little, but that does not require retailers *per se*:

... we may infer that retail trade is not a natural part of the art of getting wealth; had it been so, men would have ceased to exchange when they had enough (*op. cit.*)

Retailing originated for Aristotle in the use of coin to replace 'natural' exchanges between diverse producers with complementary needs:

retail trade; which was at first probably a simple matter, but became more complicated as soon as men learned by experience whence and by what exchanges the greatest profit might be made. Originating in the use of coin ... riches is assumed by many to be only a quantity of coin, because the arts of getting wealth and retail trade are concerned with coin (*op. cit.*)

The retailer, for Aristotle, is not engaged in virtuous (ethical) exchange, but in accumulating wealth, an unvirtuous activity.

In *On Duty* Cicero explores the ethical responsibilities of the first grain merchant arriving at Rhodes after a famine. Should the merchant share with the inhabitants of Rhodes his knowledge that other merchants would arrive soon? Obviously this would reduce demand and the price of his grain. Yet is not telling the Rhodians everything known to him dishonest? Cicero presents contrasting views of what an honest person might do. One argument is that the merchant should reveal all known facts, as purchasers should be as informed as sellers. Alternatively, although no lies may be told, not revealing facts differs from concealment. Customers know he is engaged in trade, and might assume he will not reveal everything useful to them. Although the seller must declare any defects in his produce, otherwise he may legitimately sell to his greatest advantage. He must not misrepresent his offering, but in

circumstances of shortage he may seek higher prices just as he may have to take lower prices when there is surplus supply.

A counter argument is that traders have a duty to work for the general good, a social responsibility perhaps in modern parlance. This can arise from a perceived fundamental moral duty to contribute to human well-being, but enlightened self-interest (assuming the trader might later return to Rhodes) might also come into play. The argument Cicero attributed to Antipater is based on moral duty, unlike that attributed to Diogenes:

it is your duty to consider the interests of your fellow-men and to serve society; you were brought into the world under these conditions and have these inborn principles which you are in duty bound to obey and follow, that your interest shall be the interest of the community and conversely that the interest of the community shall be your interest as well; will you, in view of all these facts, conceal from your fellow-men what relief in plenteous supplies is close at hand for them? (http://www.stoics.com/cicero_book.html accessed 27 January 2008).

Seeing retailing as a platform for community development has modern echoes (e.g. in the Co-operative movement), but Cicero is less than clear what he recommends. He uses retailing as an exemplar to develop broad ethical principles rather than to develop specific ethical guidance for retailers, as have other ethicists since (cf. R.M. Hare's cheating baker cited by Maitland (1994)).

If Cicero's views on fair dealing remain ambiguous, his view of retailers was clearly unfavourable. When in *On Duty* he distinguishes trades "which are to be considered becoming to a gentleman" from those that are vulgar, retailing is placed squarely in the latter category:

Vulgar we must consider those also who buy from wholesale merchants to retail immediately; for they would get no profits without a great deal of downright lying (*op. cit.*)

Moreover, "Least respectable of all are those trades which cater for sensual pleasures: Fishmongers, butchers, cooks, and poulterers, and fishermen!"

In the discourse over the famine in Rhodes, Diogenes challenges Antipater's views of sellers' social responsibilities:

... do you mean to say that those bonds of fellowship are such that there is no such thing as private property? If that is the case, we should not sell anything at all, but freely give everything away.

The issue of rights to own private property proved problematical for the Scholastics,¹ mediaeval theological philosophers of whom St. Thomas Aquinas is best known. A particular concern was what constitutes justice in exchange.

To Aquinas, Aristotle's formulation of fair exchange denied traders returns not only on basic costs but also for work enabling the exchange and for risks borne. Society should tolerate traders who make modest profits and use wealth thereby accumulated for community benefit. Later writers extended Aquinas' logic to

¹The subsequent section draws on 'The Ancients and the Scholastics' at <http://cepa.newschool.edu/het/schools/ancients.htm> (accessed 27 January 2008).

suggest a just price would allow merchants to maintain their customary position in society, covering long run costs plus 'normal' profits. Aquinas, though, doubted markets would guarantee a just price, and believed self-interest and greed should be curbed through market regulation and price controls. Defining a theologically-sound just price long concerned the scholastics. Aristotle's notion of value based on usefulness could not ensure fair and just prices. The Scholastics overcame this hurdle by applying the Golden Rule: sellers should only charge what they would be willing to pay for an item. John Duns Scotus suggested a just price could probably not be precisely determined. His notion of a just price reflected the production costs of an item, but he saw how this might encourage inefficiency and higher prices. Hence he identified competition as a necessary condition for a just price to emerge, driving out inefficiencies and market imperfections.

Gabriel Biel suggested exchanges would not occur unless sellers gained additional utility. He saw no reason to exchange goods of equal value, an issue taken up by the School of Salamanca. Measures of usefulness vary between persons, and a just price should be openly and freely negotiated in exchanges. Competition ensured buyers paid a price reflecting a good's usefulness to them, and sellers only demanded prices that reflected a good's usefulness to them. In short, we see market processes, akin to Adam Smith's 'invisible hand', acting to define fairness in exchange. Subsequently the debate on a just price was dominated by economic arguments, such as those of Ricardo, Marx, and subsequent economists.

Are Ethical Issues and Concerns Currently Arising in Retailing Addressed by Those Bases?

Many ethical concerns in modern retailing could be addressed using the philosophical contributions above. Traders passing off counterfeits as genuine, retailers allegedly profiteering from disadvantaged consumers' inability to access cheaper shops, false claims that stock will soon run out, and deceptive advertising would all fall foul of these contributions.

Other modern practices might be harder to appraise thoroughly by those frameworks, for several reasons including:

- Increasing complexity of modern products and services makes awareness of product quality difficult. How many consumers really understand which computer they need, or how best to finance a housing purchase? Are the salespersons that negotiate such transactions really competent to answer all pertinent questions that might be asked by fully cognisant consumers? In Britain it is accepted that financial products like pension plans and endowment mortgages have been mis-sold, but were individual salespersons wholly to blame here? Even if consumers had been able to ask the necessary questions, had sellers been trained sufficiently to answer? Blame is hard to apportion. Partly this reflects the increasing complexity of modern products, but it also reflects the organisational com-

plexity of buyer-seller interactions in today's marketplaces, taking us into debates on limited paternalism and salespersons' duties to consumers (Ebejer and Morden 1988; Walters 1989).

- Are consumers aware who they are buying from? Consumers may compare shop prices unaware that several chains are in common ownership. E-commerce adds to the problem. How do I know that an organisation offering an attractive deal in cyberspace is who it claims to be, given the number of the false e-mails regularly received?
- Often employment as a salesperson involves bonus schemes linking salaries (including those of colleagues) to sales. Why should salespeople correct an affluent customer who mistakenly thinks he/she needs to buy a more expensive computer than his/her needs justify? How can conflicts of loyalty to a customer, sales colleagues, and an employing organisation be reconciled?
- If unmet demand exists for certain legal products, why should traders not meet that demand? What if the products are unacceptable to elements of a diverse population (e.g. replica guns, fur coats, sweatshop-produced items, even cigarettes)? Aren't retailers still serving community needs and thus justified in such selling so long as no laws are broken?
- Why should retailers assume customers are honest when many adopt dishonest or damaging practices (e.g. using in-store advice to inform on-line purchases; returning goods as faulty when they have been misused)?

Many similar instances to those rehearsed above can be envisaged, but suffice to say that traditional models of fair and just practices in retailing do not provide simple solutions to all modern ethical challenges in this sector.

Modern retailing has complex characteristics. Dyadic exchanges envisaged in traditional approaches, while still valid in situations such as street markets, have often been supplanted by more complex interactions. Product complexity means ordinary consumers become increasingly reliant on salespersons who themselves face conflicting pressures and loyalties. Diverse consumers bring differing agendas to the store, not all fair or favourable to retailers. Increasingly consumers are not simply buying a product, but a wider package (after sales support, warranties, credit), making comparisons difficult. Supply chains appear weighted in favour of large-scale retailers, meaning perceived consumer needs (e.g. low price, quick response) may be used by powerful retailers to 'bully' dependent suppliers. Modern retailing exists in a global context, with goods sold in developed economies increasingly sourced from developing nations, and many see that process operating principally to the advantage of the former. Is modern retailing damaging the global diversity of societies by undermining regional traditions and cultures? Are market-driven processes benefiting society overall, or damaging it as increasingly powerful global retailers lacking accountability emerge as key players? Are such processes unsustainable, ultimately threatening the planet environmentally?

How Might We Conceptualise Ethics in Retailing?

Ethical concerns in retailing can be presented using a stakeholder framework. Stakeholder theory can take different forms (Donaldson and Preston 1995), and here a descriptive approach is adopted initially, merely as a useful way of representing the plethora of ethical concerns that surround modern retailing.

Figure 15.1 portrays the stakeholders who modern retailers impact on and/or are impacted by, although in reality, interactions between and across groups are more complex than the diagram suggests. While retailers' interactions with each of these groups generate ethical concerns, it is neither practical nor necessary to explore all these interactions in equal depth. Initially focus is put on key groups: customers, employees, suppliers, and the wider community.

Customers

A fundamental ethical issue remains whether or not a deal is fair. A power imbalance between individual consumers and increasingly large retail corporations has been identified, especially regarding disadvantaged consumers (Alwitt 1995). Deals may be unfair in various respects: price, merchandise quality, fitness for described purpose, conditions attaching to sales, after sales support, misrepresentation, and so forth. A particular concern is that retailers might unfairly use their greater market-place power. This might manifest itself variously, but most obviously through predatory pricing (Compeau et al. 1994), and notably by apparent exploitation of

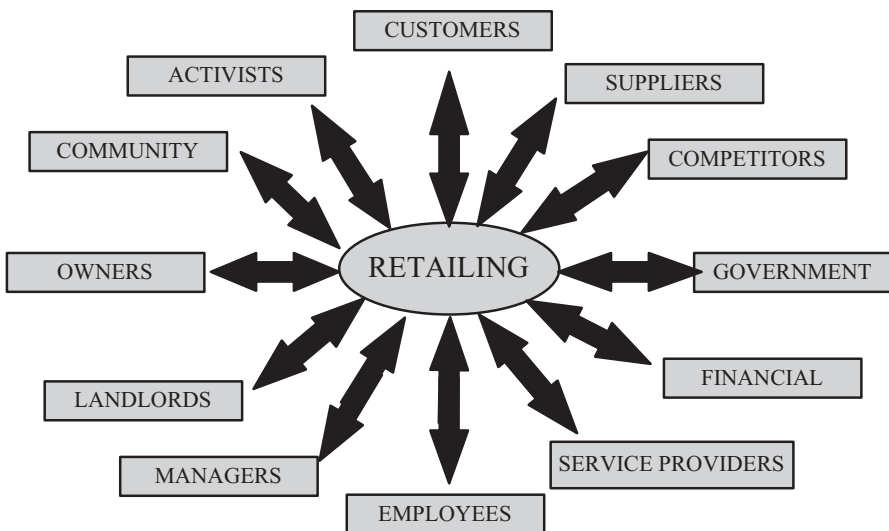


Fig. 15.1 Stakeholders in retailing

vulnerable groups (Graddy and Robertson 1999). Incentives such as competitions and special offers may also raise ethical questions (Whysall 2000b). Fundamental is what constitutes a fair price and how that is determined (Michel 1999). Beyond price, retail transactions increasingly involve exchanges of personal information, raising privacy concerns (Bosworth 2005).

Fairness is also an obligation on consumers. Consumerism brought consumers responsibilities alongside enhanced rights (Davis 1979). Consumers should follow product instructions, only make justifiable complaints initially using appropriate channels, pay as agreed, comply with contracts, and point out errors even when these are beneficial. However there is also a view that shifts towards consumer sovereignty can go too far (Sorell 1994), with growing concerns for fraudulent shopping practices (Schmidt et al. 1999).

Vulnerable groups like compulsive shoppers need particular attention (Shoham and Brenčič 2003), while excluding ‘undesirable’ groups from retailing is also questionable (D’Rozario and Williams 2005). Attention has focused on ‘disadvantaged’ consumers (Ringold 2005; Williams and Hubbard 2001). Specifically the elderly (Moschis et al. 1997), children and adolescents (Austin and Reed 1999; John 1999), the disabled (Kaufman-Scarborough 1999), and the less mobile (Bromley and Thomas 1993) have been seen as vulnerable.

Large stores generate complex trading impacts (BDP Planning/Oxirm 1992). Bell et al. (1997) identified across Europe ‘captured consumers’ using fewer, larger stores and having limited knowledge of other stores, suggesting markets may be increasingly less competitive. The spectre of local monopolies has provoked debate (Poole et al. 2002). As affluent shoppers travel further for cheaper goods, poorer and less mobile consumers may face less choice and/or higher prices. Davidson (1995) suggested retailers had obligations not to leave declining neighbourhoods for more profitable locations. The food deserts issue – whereby retail change leaves areas lacking basic food shopping provision – has generated controversy recently. Food deserts have been identified in diverse research locations (Blanchard and Lyson 2006; Rex and Blair 2003). For Wrigley (2002) a food desert is “a metaphor for the complex nexus of linkages between increasing health inequalities, retail-development induced differential access to food retail provision, compromised diets, undernutrition and social exclusion”. Others question the existence of food deserts *per se* (Cummins and Macintyre 2002; Guy 2002).

It seems agreed that disadvantaged consumers have suffered a worsening of shopping options in the wake of retail change (Carley et al. 2001), although disadvantaged consumers show resourcefulness in coping with the problems that arise (Piacentini et al. 2001; Williams and Hubbard 2001). Increasing dependence by disadvantaged consumers on smaller shops links to concerns over diet and health. Caraher et al. (1998) saw this dependence as a barrier to accessing healthy foods, but links from local availability of healthy foods to health issues are complex (Cummins and Macintyre 2006).

Suppliers

Marketplace power has shifted from manufacturers to retailers, implying that suppliers of goods have become less powerful compared to their retail clients. This raises threats of the exploitation of retailer power. Relationships between British farmers and supermarkets have become strained (National Farmers' Union 2006a, b) and similar concerns are also heard in other retail sectors. A controversial aspect of retailer-supplier relationships is 'slotting fees', whereby suppliers pay retailers to get their products onto retailers' shelves and/or for advantageous positioning on those shelves (Aalberts and Jennings 1999; Dickinson 2002). That issue becomes more controversial with products such as alcohol (Gundlach and Bloom 1998). Sales of counterfeit products also raise concerns (Bloch et al. 1993; Hilton et al. 2004), as do so-called product look-alikes that imitate leading brands (Burt and Davis 1999; Davies 1998).

Global impacts of large retailers manifest in various concerns, including sourcing from developing economies. Blythman (2005) describes a Kenyan farmer who became increasingly dependent on increasingly demanding supermarket customers, yet could not exit the relationship without potentially disastrous consequences for employees and the local community. Seager (2006) reported that Starbucks had blocked Ethiopian farmers' attempts to copyright their best selling coffee beans, thus denying them secure income. A response to alleged abuses of producers in the developing world is the Fair Trade movement (Nicholls 2002; Strong 1997).

A particularly prominent concern is 'sweatshop' production (Collins 2003; Khoury 1998). Some see sweatshops as a necessary evil generating growth in developing economies (Maitland 1997), but more commonly such activities are criticised (Arnold and Bowie 2003; Arnold and Hartman 2003). Responses include campaigns and boycotts against sweatshops (Johns and Vural 2000), voluntary Codes to regulate production conditions (Emmelhainz and Adams 1999), and the introduction of 'no sweat' labels (Dickson 2001).

While retailers' increased power makes them seem the more likely ethical villains in relationships with suppliers, there are examples of producers seeking to protect their privileged position in the marketplace, as with perfume producers limiting outlets to maintain high prices (Whysall 1995). Initiatives such as 'greening' supply chains raise issues about the morality of using retailer power for beneficial outcomes.

Employees

Employee relations are crucial in service industries like retailing. Retailing's job creation potential has attracted attention in recent years, but while retail employment creation is generally welcomed, concerns remain that resulting jobs are relatively low paid and often part-time (McQuaid et al. 2005). Unsociable working

hours typify retailing, especially with liberalised trading (Kirby 1992). Retailers may have used discriminatory practices (Broadbridge 1995, 1996). Wal-Mart faced a class action on behalf of at least half a million women alleging sexism throughout the company over a prolonged period (Waldmeir 2005) and was accused of knowingly employing illegal immigrants across 21 American states (Buckley 2004). Thus while retail employment creation is generally welcomed, it does not come without problems.

Retail work can be stressful (Broadbridge 1999; Donnelly and Etzel 1977). Evidence of dangerous working conditions in retailing also exists (Peek-Asa et al. 1999). There are also documented cases of threats to individual privacy in retail workplaces (Hartman 2001). However employees' own behaviour in the workplace can also raise ethical concerns as with employee theft (Anderton and Kiely 1988; Oliphant and Oliphant 2001) and 'service sabotage' (Harris and Ogbonna 2002).

Community Interests

Local opposition from residents and established traders to retail developments is not uncommon (Whysall 1999), although there can also be a trade-off whereby people want a new store close enough for them to access, yet not so close as to impact on their lifestyle or property values. Nonetheless, retailing has become an important element of economic regeneration strategies (Dixon 2005).

Recognising the social functions of retailing, there is a case for treating certain retail activities as essential local services, leading to schemes to protect Britain's declining network of small post-offices, which also act as welfare/benefits outlets (Office of the Deputy Prime Minister 2003). Similar arguments focus on community pharmacies (Schmidt and Pioch 2004).

Baron et al. (2001) saw the independent retailer as a community focus. However Bell et al. (1997) suggested that 'substantial proportions of the population' across Europe had been disadvantaged by the 'retail revolution', arguing paradoxically that low income groups who most need supermarket chains' low prices are often least able to access them. It has been asserted that modern marketing exchanges are biased in favour of the marketer, with the poor in the USA paying more for goods and services while receiving less choice or variety of goods (Alwitt 1995; Kaufmann et al. 1994).

Retailers can also provide community support. British supermarkets have promoted projects whereby customers' purchases fund equipment for schools, although these have been challenged in terms of the actual returns to schools compared to the public relations gains for retailers (Garner 2001). There can also be a heritage dimension, with village shops, for example, integral to rural infrastructure and retailers often being preferred tenants for cherished buildings of architectural or historic merit that have lost their original functions (e.g. London's Covent Garden, San Francisco's Fisherman's Wharf and Ghirardelli Square, Boston's Quincy Market).

Activist groups represent a particular subset of community interests, although their status as stakeholders is problematic; often they contribute little to organisations yet can have serious negative impacts on them. Activist pressures on organisations vary in level and form (Smith 1990). Many topics generate protest: animal rights issues in clothing and cosmetics, third world sourcing issues, sweatshop labour, polluting activities, inappropriate exports to developing societies, unhealthy foods, and various political campaigns.

Ethical concerns exist around all the relationships identified in Fig. 15.1 (Whysall 1995, 2000a, b), but to explore each further might be a distraction from the objective of conceptualising ethical retailing. The key point is that *all* stakeholder-retailer relationships can exhibit ethical dimensions. It is also important to note that the discussions have shifted from relatively simplistic ‘value for money’ considerations to embrace aspects of marketplace power, the importance of information, and global impacts of trading relationships, all increasingly important dimensions of modern retailing.

A shift from descriptive to normative stakeholder theory (Donaldson and Preston 1995), whereby it is argued that all stakeholders have a fundamental right to be considered in retailers’ decision making is contentious. Stakeholder models have widespread support, but also attract strong criticism (Sternberg 1997). The stakeholder model *per se* does not have an ethical foundation, although Kantian arguments can be attached to stakeholder theory (Evan and Freeman 1993). Even then, how to resolve conflicting stakeholder claims is likely to remain problematic. In summary, then, we can conceptualise the ethics of retailing as a complex set of stakeholder relationships, but that does not necessarily offer a framework for resolving ethical dilemmas. It does, however, add depth and dimensionality beyond the simple dyadic model of most ethical discourses on retail transactions, highlighting issues such as power imbalances, information, and global impact.

What, Then, Might Constitute Ethical Retailing?

There is thus no simple answer to what constitutes ethical retailing. One model is stakeholder management, where the ethical retailer manages through a consideration of who will be affected, seeking a solution that offers the most beneficial mix of impacts. This though represents a major challenge for the retail manager. Firstly it should be remembered that few retail managers will have any grounding in ethical discourse or in resolving ethical dilemmas. Perhaps that implies some duty on the part of employers/shareholders to ensure their managers are prepared for such challenges, but to expect that is probably unrealistic in relation to how managerial recruitment and training is presently typically focused. Secondly, even if managers did possess skills in resolving ethical dilemmas, what ethical framework(s) might they be expected to employ? Is it realistic to expect managers to set aside their personal beliefs and values, or their perceived duties and loyalties to employers or colleagues, in favour of some ethical framework that even a sample of moral

philosophers might not all support? In reality many retail managers are likely to be instrumentally 'target driven' to increase sales, given typical reward schemes, and if that is so our best hope may be that in the longer term markets do reward virtue. To Maitland (1994, p. 28) the market "strengthens its own foundations and reproduces a moral culture that is functional to its own needs", which he saw as largely virtuous, but others may be less convinced.

The stakeholder management approach might actually sound less like virtue ethics and more like utilitarianism, seeking the greatest good for the greatest number, and indeed it is utilitarianism that many marketers resort to for ethical justification of their practices (Laczniak and Murphy 1993). Yet to equate utilitarianism's 'greatest good for the greatest number' with marketing's aim of 'meeting consumer needs' is highly problematic. While opening a new store in a Greenfield location may meet many consumers' needs, that does not automatically equate to the greatest good for the greatest number. If a consequence is the loss of shopping amenity and/or higher prices for less mobile shoppers, or environmental degradation, then surely those issues also merit consideration.

That raises issues of distributive justice. Rawls argued economic and social inequalities should be set up to benefit the least advantaged. Thereby ethical retailing would involve decisions that tackle disadvantage, or at least did not increase it. Defenders of the free market may argue that such social considerations will deflect businesses from their primary function of generating profit (Friedman 1970), but others argue for retailing's key role in regenerating disadvantaged areas from a similarly profit-seeking orientation (Porter 1995).

So ethical retailing may take many forms according to different ethical frameworks. Many professions and corporations respond to such a situation by formulating some sort of code of ethics, but that is not an approach that is advocated here, as codes often bring problems as much as provide solutions (Warren 1993). Ethical retailing, as indicated above, might appear utilitarian in character, virtue-driven, or justice-based, for example. For the individual retail manager, however, these are likely to appear rather abstract (and potentially unhelpfully conflicting) frameworks and thus personal values and beliefs are likely to take precedence with a manager's personal conceptualisation of what are his or her duties, and to whom those duties are owed, becoming crucial. In a postmodern perspective some (e.g. Bauman 1993) might argue this uncertainty around what constitutes 'right' actions merely reflects the reality of contemporary society, riddled with contradictions. To the cynical, however, it could simply become an excuse to follow self-interest behind some convenient quasi-ethical smokescreen.

It often seems far easier to cite putative examples of unethical retailing than to define what constitutes ethical retailing, but some broad principles can be offered in conclusion. Firstly, ethical retailing would not focus solely on buyer-seller relationships, but would also reflect wider social, economic, and environmental impacts, going beyond the dyadic to embrace complex multi-stakeholder relationships. Secondly, it would positively address the welfare of the disadvantaged, both locally and throughout potentially global supply chains. Thirdly, the profits of retail trading would be shared fairly across stakeholders (raising questions of what is fair!).

Fourthly, it would embrace all aspects of exchanges, not simply goods and money but also information, responsibilities, loyalty, and so forth. Finally, perhaps, it would not only be concerned with short term returns and gratifications, but with longer term impacts and benefits, aiming to be sustainable, socially and environmentally. That may seem an unrealistic set of principles, but one advantage of establishing such principles is to prevent the concept of 'ethical retailing' being hijacked for commercial gain.

Ultimately, ethical retailing is not a benchmark that a trader does or does not meet, but more a pursuit of excellence, a search for virtuous retailing. And why should companies aspire to such principles? In Mahoney's terms, the obvious ethical reply would be because it is the right thing to do. Consumers also have a key role; it is hard to conceptualise ethical retailing without ethical consumerism. Therefore if we consumers want ethical retailing, we may also have to realign our own shopping motivations and behaviours.

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Part III
Societal Level Business Leadership

Chapter 16

Embedded Leadership



Patricia H. Werhane

Abstract This chapter sets the stage by exploring a model for 21st century leadership, called ‘embedded leadership’. I begin with the assumption that notion(s) of leadership are socially constructed and thus can be reformulated to fit changing political and economic environments. I then argue that underlying the present global chaos is part of a larger macro complex interacting framework that demands new thinking to frame our models of leadership. Unless we change our leadership models to fit the global 21st century knowledge-framed economy, we will be unable adequately to face the new issues that will continue to plague our planet. What follows focuses on a model derived from the thinking of Uhl-Bien, et al. and Collier and Estaban (Uhl-Bien M, Marion R, McKelvey. Complexity leadership theory: shifting leadership form the industrial age to the knowledge era. *Leadersh Q* 18:298–318, 2007; Uhl-Bien et al. 2012, 2017; Collier J, Estaban R. Systemic leadership: ethical and effective. *Leadersh Org Dev J* 21(4):207–215, 2000). This model entails framing our thinking from a systems perspective appealing to an idea borrowed from complexity science: the notion of a complex adaptive system (CAS), (Miller JH, Page SE. *Complex adaptive systems*. Princeton University Press, Princeton, 2007). The chapter concludes that our notion of leadership should reflect that complexity, and the network of systems in which we live and act.

Keywords Embedded leadership · Models of leadership · 21st century knowledge-framed economy · Complex adaptive system

Some of the thinking on complex systems derives from an unpublished paper I presented in 2017 in Wittenberg, Germany. Most of the ideas are not mine, but are derived from work by Collier and Estaban (2000), Miller and Page (2007), Uhl-Bien and her colleagues (e.g., 2007) and from a terrific collection, *Complex Systems and Leadership Theory* (2007). Reprinted with permission from *Business Leadership in Troubling Times*, edited by J. Ciulla and T. Scharding. London: Elgar Publishing, 2019.

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Leaders and followers live in a relational world—a world in which leadership occurs in complex webs of relationships and dynamically changing contexts. Despite this, our theories of leadership are grounded in assumptions of individuality and linear causality. If we are to advance understandings of leadership that have more relevance to the world of practice, we need to embed issues of relationality into leadership studies. (Uhl-Bien and Spina 2012, Back Cover)

Introduction

I want to set the stage by exploring a model for 21st century leadership, what I shall call “embedded leadership,” that fits well for the complex character of global economies and “troubling times.” I begin with the assumption that notion(s) of leadership are socially constructed and thus can be reformulated to fit changing political and economic environments. I then argue that underlying the present global chaos (Brexit, Iran nuclear deal meltdown, other nuclear threats, human trafficking, trade embargos, etc.) is part of a larger macro complex interacting framework that demands new thinking to frame our models of leadership. Unless we change our leadership models to fit the global 21st century knowledge-framed economy, we will not be able adequately to face these and new issues that will continue to plague our planet. One such viable model is that of embedded leadership.

In what follows I will focus on a model derived from the thinking of Uhl-Bien, et al. and Collier and Estaban. (Uhl-Bien et al. 2007, 2012, 2017; Collier and Estaban 2000) This model entails framing our thinking from a systems perspective appealing to an idea borrowed from complexity science: the notion of a complex adaptive system (CAS). (Miller and Page 2007) Because the subject of these complex systems is human beings, their organizations and institutions, I shall call these complex adaptive *social* system (CASS) or sets of embedded systems.

I will conclude that our notion of leadership should reflect that complexity, and the network of systems in which we live and act. If we can conceive of leadership that is embedded within these complex global systems, we might be able to create a model that can address some of the challenges raised by the TABEC conference “call for papers.”

Is this a feminist model of leadership as some thinkers suggest? (e.g., Borgerson 2007; Painter-Morland 2011; Painter-Morland and Werhane 2011; Werhane et al. 2007; Werhane 2007; Wolfe and Werhane 2017) I shall raise that question, but not come to a precise conclusion on this contention.

Systems Thinking and Complex (Social) Systems

In today’s environment, complexity is occurring on multiple levels and across many sectors and contexts. Although many forces are driving it, the underlying factors are greater inter-connectivity and redistributions of power... (Uhl-Bien and Arena 2017, 10)

According to systems thinkers (e.g., Mitriff and Linstone 1991; Laszlo and Krippner 1998; Wolf 1999; Plesk 2001; Miller and Page 2007; Painter-Morland 2011; Werhane 2000, 2002, 2008) Each of us and each of our institutions and communities is embedded in a complex historically grounded social, familial, cultural, political and even religious set of interactive social networks that affect and are affected by mutually triggered individual, institutional and even community decisions, choices and actions. This is what several thinkers have called “complex adaptive systems,” or complex adaptive social systems (CASS). “A complex adaptive system (CAS or CASS) is a collection of individual agents {and organizations} that [despite institutional and other social constraints to the contrary] have the freedom to act in ways that are not always predictable and whose actions are interconnected such that one agent’s actions changes the context for other agents.” (Plesk 2001, 311–2. See also, Miller and Page 2007, 3–8) I shall address the latter part of that definition in the next section. One might think of this as a set of enormous complex interrelated and interactive four-dimensional stakeholder networks, and there is not merely one global complex system. Rather, there are layers of systems. So, for example, an individual lives within and interacts with several systems including other individuals and groups of individuals, complex organizations, messy political economies and an ever-evolving global network. And most organizations themselves are complex adaptive systems as are political economies and the ecosystem with which we interact daily. And obviously, in this context complex adaptive systems refer to and are human social systems.

A basic assumption underlying this notion of CASS is that human beings are inexorably social. Going back to Adam Smith, Smith argues “[i]t is thus man, who can subsist only in society, was fitted by nature to that situation for which he is made. All the members of human society stand in need of each other’s assistance and are likewise exposed to mutual injuries.” (Smith 1759, II.i.3; see also Bevan and Werhane 2015 on this point). Thus, Smith would argue, (putting his arguments in contemporary language) interacting and networking with others and other organizations is part of who we are because as social beings we are in need of each other, and indeed it could not be otherwise.

There are several provisos we should consider in this definition of a CASS. First, the term “adaptive” in this context is both descriptive and normative and theses differences are not always specified. It is commonly argued that complex systems are or can be “adaptive” evolving changing systems because each of us as individual or organizational actors, although bounded by our particular situations, can act, and act with emotion, with reason or without reason, with Twitter or Facebook, and those actions and behaviors affect and change our relationships and thus the evolution of various complex adaptive social systems on each level. For example, to requote Plesk, “A complex adaptive system (CAS) is a collection of individual agents {and organizations} that [despite institutional and other social constraints to the contrary] *have the freedom to act in ways that are not always predictable and whose actions are interconnected such that one agent’s actions changes the context for other agents.*” (Plesk 2001, 311–2, my italics) But notice the terminology—individuals and organizations “have the freedom to act”,: that this, they **can** act. This statement

is normative, because it implies that individuals and organizations can, but do not have to act—we have choices, albeit with many institutional restraints, and indeed there are static systems as well and individuals, organizations, and institutions that do not take advantage of these possibilities. Of course, a static system affects other interacting systems. Not acting is a choice too, not to choose, but by not choosing, by not adapting to changing environmental conditions and new networks, an individual or organization is doing something that affects the system.

Corporations are complex systems “because they are the result of multiple interconnecting interrelationships so that the way they respond to their environment has the effect of creating new connections and thus increasing their complexity”. (Collier and Estaban 2000, 210) They are or can be adaptive because they react to, and can change, their culture, goals, direction, and processes while remaining the same entity. And they are systemic because they interact with other complex systems (many of which are adaptive) both locally and globally, individually and with other organizations and communities.

We experience our lives within various complex social systems, but we can also study and separate various forms of thinking, thus accounting for the development of various empirical, experimental and normative methodologies. Moreover, while individual and institutional actions are results of these constantly evolving networked interactions, according to CASS theorists, there is still room for choice and judgment, not always aligned with the systems in which individuals and organizations (social agents) exist, and those choices and judgments, in turn, affect the system, often in unpredictable ways. According to experts in CAS, unpredictability is a result of the complexity of the system *and* the behavior of its individual and organizational actors such that understanding the behavior of each component part will not yield full understanding of the continually evolving system. (Miller and Page 2007, 3). Alternately, grasping a system in its full complexity at any moment in time (although almost impossible to do in practice) will not yield perfect predictability of the future.

Indeed, according to Miller and Page, “[s]ocial agents [individuals and organizations] find themselves enmeshed in a web of connections... [But despite these connections] social agents are also *capable* of change via thoughtful, but not necessarily brilliant, deliberations about the worlds they inhabit.” (10, my italics) Social agents (both individual and institutional) do not merely react or act. They can also be aware or become aware or “mindful” of their actions, and they are capable of changing their behavior and thus the systems in which they act, even alternating the course of history, albeit ordinarily very slowly and in very small ways within the restraints of the system (and its historical time/space location) in which they exist.

As Philipp Schreck reminds us when commenting on institutional theory, “...even if ethics is considered a primarily institutional matter, the evaluation of an institution’s ethical quality presupposes the capability of ethical judgment. This judgment remains the responsibility of individuals.” (Schreck 2016, 380) I would add to that that even if ethics is considered a primarily a result of systemic interactions, the evaluation and dynamism of a complex system is ever evolving (positively or negatively) and this evolution presupposes the capability of individual and organizational ethical judgment and choice.

Complex Adaptive (Social) Systems and Social Constructivism

...the seemingly objective social world is constructed by human action and interaction [Berger and Luchmann 1966, 1)

As I hinted at in the Introduction the term “leadership” is a socially constructed notion, defined by culture, context, and the differing perspectives of various theorists in this field. That statement is part of a larger assumption that all human experience is socially constructed. That is, human beings (and thus organizations and institutions we as humans create) cannot take in all the data of their experiences. Rather, we select, order and organize this data, and we do so from what we have socially been exposed to and/or learned. Because they are constructed by ourselves, we can change these mind sets when exposed to new, challenging experiences, but those, too are socially constructed. Because we cannot absorb all the data of our experience, just as we cannot know everything there is to know. (Berger and Luchmann 1966; Hacking 1999; Werhane 1999, 2012)

Herbert Simon once referred to one dimension of this phenomenon as “bounded rationality,” arguing that “decision makers (irrespective of their level of intelligence) have to work under three unavoidable constraints: (1) only limited, often unreliable, information is available regarding possible alternatives and their consequences, (2) human mind has only limited capacity to evaluate and process the information that is available, and (3) only a limited amount of time is available to make a decision. Therefore, even individuals who intend to make rational choices are bound to make satisficing (rather than maximizing or optimizing) choices in complex situations.” (2018 from Simon 1982. Requested in *Business Dictionary*, 2018) Because of the limitations of rationality, individuals and organizations often have blind spots (Bazerman and Tenbrunsel 2011) or miss some important information, such cultural differences, consumer patterns, new technologies, climate change, political movements, etc. What a CASS model takes into account is the various ways in which we can approach the data of human experience, its normative intent, and its unpredictability. Each of our mind sets separates out certain components for focus but in fact all that we experience is interconnected with other phenomena.

Within the bounded rationality of any system, however, there is leeway for decision-making or simply randomly unpredictable behaviors that cannot be fully predicted because of the mindfulness and plasticity of social agents themselves. To think of it another way, systems thinking and the concept of complex systems appears to create a deterministic universe, but one has to account for unpredictability as well. This unpredictability or chaos generated in any complex system or subsystem can only be accounted for by the volatility of the human capacity for action. Thus the CASS model is an explanatory framework for explaining human and organizational (social agent) choice, independence, and thus human judgment and responsibility, and, I shall argue, contemporary leadership as well.

Cass and Stakeholder Theory

Stakeholder theory, in its original formulation defended the notion that in any organization such as a corporation there are reciprocal relationships between the organization and its primary stakeholders, relationships that entail obligations of the organization to its stakeholders and reciprocal (but not the same) obligations of the various stakeholders to the organization. This is often depicted as a wheel-and-spoke graphic. [Fig. 16.1] But as Freeman acknowledges, “organizations are complex phenomena and to analyze them as “black boxes” ...with the organization in the middle of a complex world of external forces and pressures, does not do justice to the subtlety of the flavors or organizational life.” (Freeman 1984, 2010, 216) So for example the not-for-profit pharmaceutical Nova Nordisk redraws the stakeholder map to place patients with diabetes in the center. This is to emphasize that Novo Nordisk is in the business of developing drugs to ameliorate disease, and their most successful drug is for diabetes. [Fig. 16.2] Pfizer Europe has developed an even more complex model that abandons the wheel-and-spoke graphic altogether. [Fig. 16.3, Sachs and Rühli 2011]] Elsewhere I have argued that in a global economy an even more complex model that is not organization-centric might better depict the very complex relationships that exist in global relationships. [Fig. 16.4] (See Werhane 2011; see also Freeman 1984, 2010, pp. 36–38 on systems thinking.) Leadership under Fig. 16.4 is embedded within all those arrows.

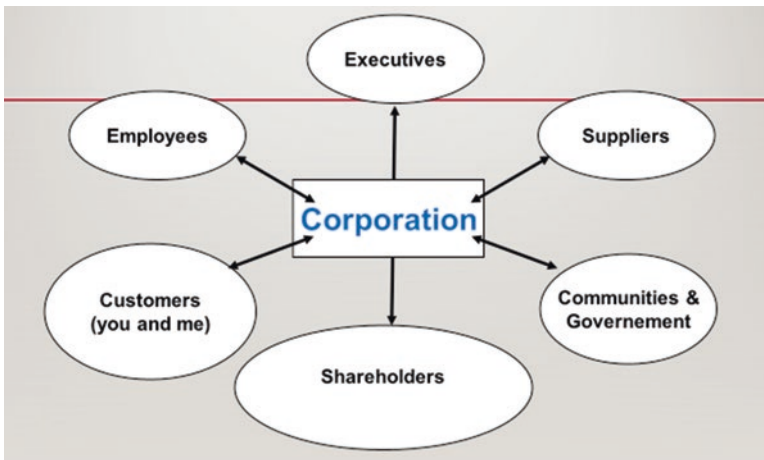


Fig. 16.1 Standard Stakeholder map

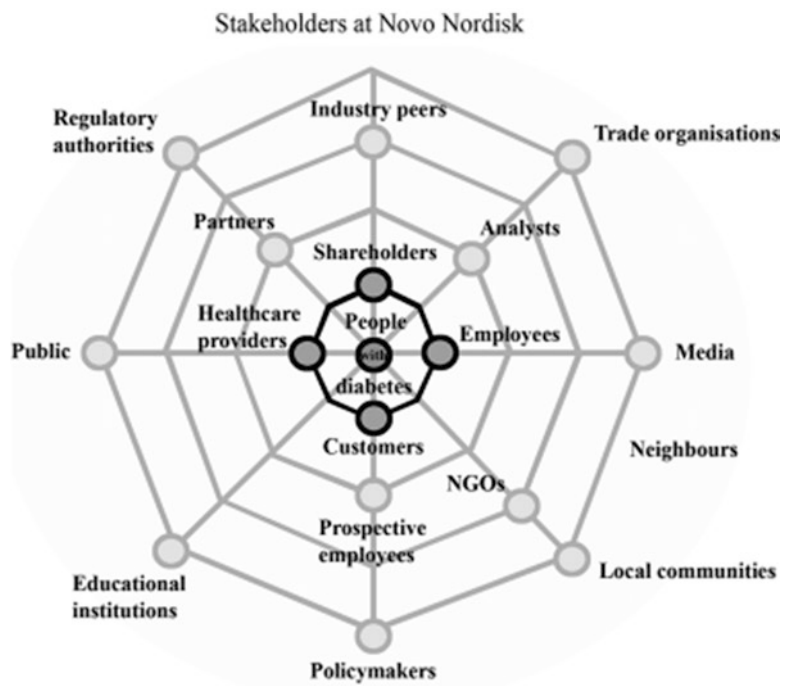


Fig. 16.2 Novo Norisk stakeholder map

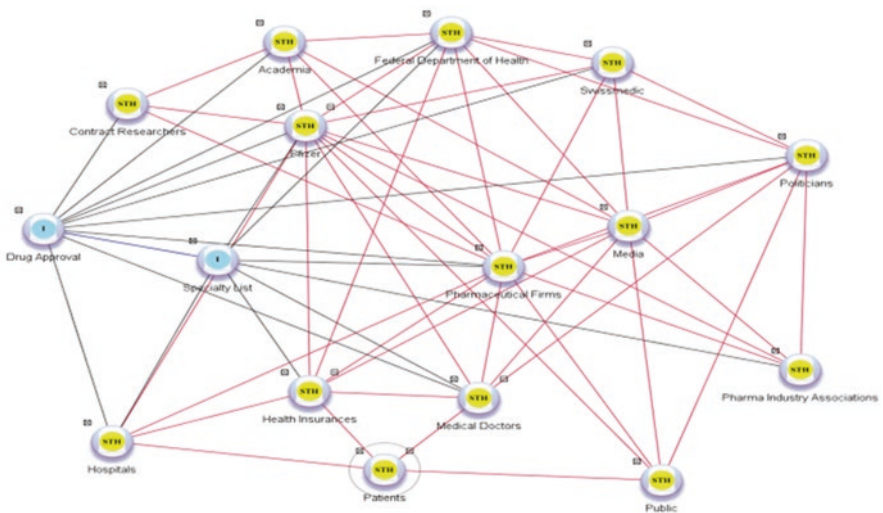


Fig. 16.3 Pfizer Switzerland stakeholder map

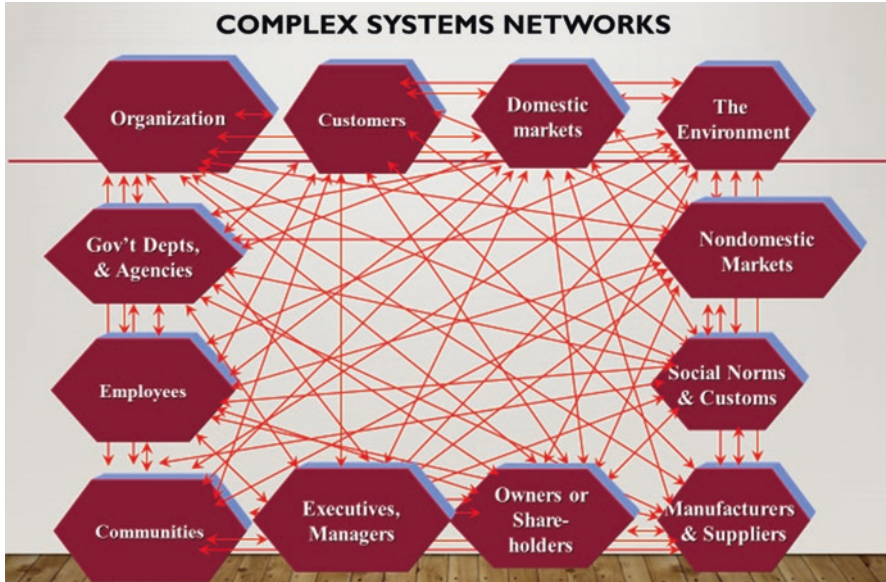


Fig. 16.4 Complex Adaptive systems stakeholder map

Cass, Stakeholder Theory and Embedded Leadership

If, as I have argued, we are embedded and live in a complex global world, we are part of an interlocking interacting series of complex systems that require systems thinking about leadership. According to Painter-Morland (2011) “Systems thinking allows us to acknowledge the multidirectional, tacit influences that play a role in the ways people “lead” in organizations. Under certain [global] organizational conditions a relational, systemic model of leadership emerges, which allows individuals who don’t necessarily occupy positions of authority to lead in their own unique ways.” (142) This model of leadership is neither hierarchical nor bureaucratic but reflects that embeddedness and complexity while nevertheless allowing for adaptability and change.

I now suggest that if the graphic of Fig. 16.4 best depicts the complex adaptive systems in which global relationships and thus leadership take place. An embedded idea of leadership is most appropriate in this era of globalization; it is also appropriate for a Fig. 16.4 description of companies as embedded in sets of global political economies, and for political economies themselves. This mindset, the mind set of CASS, challenges us to think of leadership differently and it challenges any hierarchical model of leadership. More importantly it takes business firms and even particular political economies such as the United States out of the center of things, even in today’s climate of political chaos. The chaos itself illustrates how even bad leadership is no longer (if it ever was) hierarchical, because in executing a hierarchical (even dictatorial) model the designated leader runs into complex issues (e.g., trade,

immigration) that cannot be predicted, much less handled (either fairly or unfairly) with this hierarchy. There are always new events and complexities in every context that are both unpredictable and messy and have to be taken into account, one by one.

What do I mean by “embedded leadership?” In this model, “leadership is an *emergent* phenomenon within complex systems... involving dynamic of interaction [in an organization]” (Hazy et al. 2007, 2) rather than a leader-follower model. This explains how leadership can be “from the middle” of an organization, and entails collaborative interrelationships between so-called designated or appointed leaders and their constituents. (See Isabella 2010) Leaders are embedded within complex systems in which they cannot avoid interacting. In a complex global world of interconnected systems, a so-called hierarchical leader is constantly challenged by events she did not predict and from other points of view she did not imagine. For example, in the United States, judges’ challenges to Trumpian thinking on immigration; his now-dismissed attorney general’s refusal to fire the chief investigator on Russian interventions; the governor of California’s refusal to weaken environmental restrictions, German objections to Angela Merkel’s immigration policy. All of these were unpredicted and unwanted by these leaders. And the mass immigration we are witnessing from Africa, Syria and elsewhere is an unpredicted systemic issue, not merely a “problem” for Europe.

As Collier and Estaban and Kelly and Allison (1999) argue, in a systemic complex dynamic world, leaders emerge and disappear, depending on the context. This might or might not be a result of collective thinking in various organizations, or this leadership phenomenon might simply arise from a propitious context. Hitler’s rise to power in the 1930s leadership vacuum is an example of that. Still, the idea of embedded leadership does not eliminate designated-by-election leaders such as Merkel and Trump, nor appointed leaders, such as CEOs. Rather, it is to argue that these people, despite their election or appointment as “chiefs,” are embedded in a global complex set of systems and networks, some of which are unpredictable (because of human actions). So embedded leadership is inescapable and descriptive of leadership relationships in the globalized world of today. This concept of embedded leadership is also normative in intent. In order to be a 21st century successful global leader emerging, appointed, or elected leaders should recognize this complexity and unpredictability.

Is This a Feminist Model of Leadership?

Some time ago several of us argued that this model best exemplifies feminist styles of leadership. In two studies: the first on some American women leaders (Werhane et al. 2007) and a second on non-North American women leaders (Werhane et al. 2007; Wolfe and Werhane 2017) we have discovered some common characteristics that fit well with the idea of embedded leadership. We studied women from diverse cultures and backgrounds including women from India, Japan, Jordan, the United Kingdom as well as the United States. We found that across these diverse sets of

women they shared some leadership characteristics. Most seem to eschew hierarchies—abhorring being The Bosses of their organization, although most were, in fact, in charge of business or non-profit enterprises. They each found that to be effective they had to be self-assured of their knowledge base and their vision. At the same time, they had to be collaborative, to encourage innovation and dissent, to see themselves as part of team transforming an organization rather than being in charge. All thought of themselves as interactive leaders engaged in empowering others. None was afraid of being superseded, and indeed, many encouraged new leadership in their organizations.

As a result, some of us argued that this notion of systems thinking and embedded leadership personified women in executive positions. (e.g., Borgerson 2007; Painter-Morland 2011; Painter-Morland and Werhane 2011; Werhane et al. 2007b; Werhane 2007; Wolfe and Werhane 2017) However, thinking again about these studies and our conclusion, these conclusions were probably exaggerations. We find many male global business leaders who exhibit many of these same characteristics we attributed to women leaders, and I would suggest that it is the global context in which organizations operate, not necessarily gender, that accounts for this kind of leadership thinking.¹ But that, too, is a tentative conclusion that needs to be supported with more data on leadership styles.

Complexity Theory, Embedded Leadership and Matrix Management

The foregoing analysis of systems thinking, CASS and embedded leadership may seem to be looking at leadership from 40,000 feet. However, in the management literature there is some relatively new thinking in two areas that links complexity theory and systems thinking to management practice: what Kelly and Allison call “The Complexity Advantage” (1999) and new work on matrix management, (Global Integration 2018) both of which are at least implicitly based on complexity theory and systems thinking.

Tracing the practical roots of their idea to projects at Citicorp, Susanne Kelly and Mary Ann Allison have used complexity theory to argue how self-organizing systems, an idea borrowed from complexity theory, can create a work environment in which “efficiency and creativity ...emerge naturally within organizations much like nature creates order from chaos.” (*The Complexity Advantage*, 1999, Inside left flap of book cover) A self-organizing system is an open system in which arises from the complex interrelationships in which individuals and organizations exist where there is openness and even a bit of instability (what they call “bounded instability”) that forces emerging processes that adapt or react to the complex set of environments in

¹Or, alternately, perhaps the alleged feminist mindsets about leadership have penetrated all of leadership scholarship.

which the organization (or individual) interacts. (Kelly and Allison 1999, 1–20) Their argument is that this idea, adapted from complexity theory, is an invaluable practical guide to organizational thinking with the aim to create improved efficiencies and performance. Moreover, leaders who recognize the artificiality of power hierarchies and allow and encourage employees and managers to self-organize (and in my terms, “emerge” within an organization) will be more successful in both the short term and longer term than those operating in a hierarchical management structure. Thus the idea of embedded leadership where leadership emerges from a self-organizing open organization such as a corporation or small business will be best able to deal with the challenges of a 21st century global and somewhat chaotic set of political economies.

Matrix management describes “horizontal working—structures and teams that cut across the traditional vertical silos of function, geography and business units” (Global Integration 2018) in organizations. According to this source, 90% of all FTSE top 50 global companies operate with matrix management. One of the advantages of matrix management, despite its lack of clarity as to who is in charge, is that it is a more efficient way to accomplish organizational goals in complex global settings. It is useful in managing change and ambiguity, ever-present in global markets. Because one works more horizontally rather than vertically across and outside the organization, managers find themselves in a complex but interconnected set of relationships. Such a format encourages flexibility and develops management skills more broadly to adjust to constantly evolving global commerce. It also allows for leaders to emerge from any part of an organization, building on the literature on “leading from the middle.” (See Isabella 2010; Weick 1996) Obviously, more work needs to be done on matrix management and its long-term effectiveness in a variety of organizations. I would tentatively conclude that it is an in-practice form of embedded leadership.

Both of these ideas that spring from the management literature argue that a complex systems approach best adapts to changing economic and political conditions.

Conclusion

We’re in a knowledge economy, but our managerial models and governance systems [including leadership models] are stuck in the Industrial Era. It’s time for a whole new model. (Uhl-Bien et al. 2007, 298)

If the globalization of political economies has created complex, interdependent networked systems, leaders are necessarily embedded within such systems. Hierarchical models such as the leadership scholar Gardner defines as “individuals who significantly influence the thoughts, behaviors, and/or feelings of others...” (Gardner 1995, 6) are not viable. Even if someone usurps a leader and becomes a dictator, or is appointed or elected as president, CEO, Prime Minister or Principal, and tries to be a hierarchical chief with followers, such a focus obfuscates their effectiveness as leaders. The interconnected networks in which so-called leaders, alleged followers,

and organizations must operate, even to survive, is a reality. To become mindful of that and recognize how any leader is embedded in a set of complex systems is essential (if not sufficient) for leadership. This may or may not be a feminist model but it is surely a 21st century model. Successful institutions that are organized around a model of matrix management attests to that.

One critique: CASS, systems relationships, and a resulting embedded leadership is a mind set or a clustered set of mind sets, – a way of looking at the world, particularly the globalized world in which we inhabit today. But it is only a mindset—one way of thinking about globalization and leadership. In defense of that idea one might define globalization as “a process by which [diverse groups of] people are empowered to work together synergistically toward a common vision and common goals.” (Astin and Leland 1991, 8) If that makes sense then that working together in such global contexts must entail people and groups of people who, within organizations and nation states, lead those organizations and systems from *within*. As embedded leaders, to be successful they must create trust across various populations and project a vision and sets of organizational goals that are adaptable and compelling across cultures and communities. (See Adler 1997) Embedded leaders that is, successful embedded leaders, must be flexible, inclusive, non-authoritarian, open-minded and not afraid of new ideas or of other potential leaders.

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Chapter 17

Corporate Responsibility: The Dark-Side Paradoxes of Success



Sandra Waddock

Abstract This chapter explores the paradox of corporate responsibility, that is, it explores the paradoxical dark underbelly created by strategic success in corporations and their efforts to implement voluntary corporate social responsibility initiatives to demonstrate their good corporate responsibility/responsibility. This exploration addresses the tensions of corporate responsibilities that are created not when there are crises, scandals, or misdeeds, but when the very success of the company's strategy, doing what it is expected to do, is itself the source of concern. The problematic aspects of success that come about when a company is doing what is expected suggest the need for a massive reframe of corporate purpose and responsibilities in the context of a transformed economic paradigm.

Keywords Corporate responsibility · Paradox · Dark underbelly · Success · Corporate purposes and responsibilities · Transformed economic paradigm

Strategy Creating Tensions of Opposites

Understanding corporate responsibility is a difficult proposition at best, made more so because understanding and performance can differ depending on circumstances and context. There are numerous terms related to corporate responsibility, including corporate social responsibility, corporate responsibility, corporate stakeholder

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responsibility, corporate citizenship, corporate sustainability, and responsibility, and, increasingly, simply sustainability. Corporate social responsibility involves the direct activities and involvements of companies in improving or bettering the societies and natural environment in which they exist, and which go beyond the normal activities of the business. Corporate responsibility involves the ways in which companies' business model as expressed in its visions, values, strategies, and operating practices impacts their many stakeholders and the natural environment—and the inherent responsibilities associated with those impacts (Waddock and Rasche 2012; Waddock 2008).

In many parts of the world, normal business operations, strategies, and conduct are increasingly being challenged by protests against globalization and global companies, not to mention more general protests about inequality and the economic system as a whole. Companies' performance on human rights, labor standards and working conditions, corruption, exploitation of natural resources, marketing practices, and local community impacts, as well as pay gaps between the elite leaders and workers, among others, increasingly call into question corporate integrity and stakeholder and ecological responsibility. In many ways, it is the successful companies whose practices most frequently fall under the critical scrutiny of outside watchdogs, non-governmental organizations, and activists, while less successful or less visible (particularly non-branded) companies seem to proceed largely under the radar screen.

In this context, efforts to deflect criticism by, for example, donating to charities or engaging in volunteerism (the typical US corporation's historical response to the need to establish its corporate responsibility) fail to establish companies as good social actors or provide sufficient credibility to their efforts to establish themselves as responsible. In part questions arise because of the very strategies and operating practices that have resulted in financial, economic, and market success.

No one could doubt the strategic and financial success of companies like Walmart, Amazon, Apple, Google, or Facebook despite ethical hiccups (or worse) for each. Each of these and numerous other large, high growth, high flying companies has succeeded with strategies that have allowed them to achieve enormous scale economies and significant clout with respect to their suppliers and employees, domination over markets, competitors, and customer loyalty. Yet there is a dark side to their successes, a dark side that results from the very seeds of that success. That dark side involves the impacts that extremely successful companies like these have on the societies and communities in which they are embedded and the amount of power that they wield over their stakeholders in the very process of achieving success. Further, these negative impacts, sometimes called externalities in economic terms, result from companies simply following the so-called rules of the game.

In a slightly bigger context, something is dreadfully wrong with the system as a whole when successful corporate strategies result in social ills just by virtue of their success. The better some companies perform, the richer their leaders become—and the more inequality, a civilizational risk (Diamond 2005), seems to grow. At the same time, the more discouraged and concerned some people are about the quality of life, the sustainability of the planet, and values that are driving societies, as

protests and riots that broke out in numerous places around the world in 2019 demonstrate. Yet the reality of the economic model and corporate incentives that dominate today's world means that it is relatively easy to identify situations in which the very success of a company's corporate strategy results in negative social and ecological consequences. Add in the amassing of significant power, wealth, and control of resources by interests focused narrowly and solely on economic gains for the few.

Throw in a materialistic orientation, fostered by marketing and advertising practices, in which entire cultures are bent to the will of those who focus predominantly on the consumption of more and more material "goods" at the expense of social good. Oh, yes, at the lowest possible price, with the lowest possible wage scales, and the most "efficient" use of company assets without regard for ecological consequences. All in a world where the multinational corporations that exhibit these characteristics, in many instances, control more resources than do whole nations and where their reach extends to many corners of the planet. Indeed, the website Global Justice Now finds (in 2019) that 157 of the top 200 economic entities by revenue are corporations, not countries (and 69 of the richest 100).¹

Many business leaders argue that good corporate responsibility is about businesses meeting their "social" responsibilities and being proactive or interactive about engaging with society's numerous stakeholders and social needs. Of course, it is important to be proactive with respect to such issues, rather than simply waiting until there are accusations, issues, or problems to deal with, then reacting to cope with those problems. So problematic have these practices become that major business organizations have now issued statements that explicitly identify a broader set of values at the heart of corporate responsibility. The Business Roundtable (BRT), in 2019, for example revisited core ideas of its founding mission in a statement by 180 CEOs, which argued that in addition to their own corporate purposes, signatories "commit to":

- "Delivering value to our customers. We will further the tradition of American companies leading the way in meeting or exceeding customer expectations."
- "Investing in our employees. This starts with compensating them fairly and providing important benefits. It also includes supporting them through training and education that help develop new skills for a rapidly changing world. We foster diversity and inclusion, dignity and respect."
- "Dealing fairly and ethically with our suppliers. We are dedicated to serving as good partners to the other companies, large and small, that help us meet our missions."
- "Supporting the communities in which we work. We respect the people in our communities and protect the environment by embracing sustainable practices across our businesses"

¹Global Justice Now (2019). URL: <https://www.globaljustice.org.uk/news/2019/oct/17/69-richest-100-entities-planet-are-corporations-not-governments-figures-show>

- “Generating long-term value for shareholders, who provide the capital that allows companies to invest, grow and innovate. We are committed to transparency and effective engagement with shareholders.”²

Shortly after the BRT’s declaration, Klaus Schwab, Founder and Executive Chairman of the World Economic Forum, issued the Davos Manifesto 2020, which argued along much the same lines that “The purpose of a company is to engage all its stakeholders in shared and sustained value creation. In creating such value, a company serves not only its shareholders, but all its stakeholders—employees, customers, suppliers, local communities and society at large. The best way to understand and harmonize the divergent interests of all stakeholders is through a shared commitment to policies and decisions that strengthen the long-term prosperity of a company” (Schwab 2019).

Many companies rhetorically reflect similar values on their website. Facebook, for example, declares its mission as “Give people the power to build community and bring the world closer together.” Amazon’s mission “is to be Earth’s most customer-centric company. This is what unites Amazonians across teams and geographies as we are all striving to delight our customers and make their lives easier, one innovative product, service, and idea at a time.”³ Amazon further claims to be guided by four principles: customer obsession rather than competitor focus, passion for invention, commitment to operational excellence, and long-term thinking.⁴ Google’s mission is to “organize the world’s information and make it universally accessible and useful.”⁵

A list of similar corporate responsibility (corporate responsibility, corporate social responsibility) statements could go on for quite some time. Emphasis on corporate responsibility (and its synonyms) has grown exponentially since the mid 1990s when the term first began gaining popularity as company visibility through the Internet exploded. The intriguing question behind this explosion of corporate interest in responsibility was posed by a participant in a conference at Wingspread: “Corporate citizenship [responsibility] is the symptom, but what is the problem?” Just what is all of the corporate attention to corporate responsibility designed to accomplish? Is it possible that corporate critics are correct in their assertions that corporate responsibility is merely a smokescreen designed to divert attention from the real impacts and even harms inflicted on society and nature by corporate activities?

This chapter explores the paradox of corporate responsibility. That is, it explores the paradoxical dark underbelly created by strategic success in corporations and

²Business Roundtable (2019). Statement on the Purpose of a Corporation. Business Roundtable, URL: <https://opportunity.businessroundtable.org/wp-content/uploads/2019/12/BRT-Statement-on-the-Purpose-of-a-Corporation-with-Signatures.pdf>

³Amazon jobs (2019). Come build the future with us, URL: <https://www.amazon.jobs/en/working/working-amazon/#our-dna>

⁴Amazon (2019). About Amazon. URL: <https://www.aboutamazon.com/>

⁵Google website (2019). About Google, URL: <https://about.google/>

their efforts to implement voluntary corporate social responsibility initiatives to demonstrate their good corporate responsibility. In this exploration, we will look briefly at the tensions of corporate responsibility and responsibility that are created not when there are crises, scandals, or misdeeds, but when the very success of the company's strategy is itself the source of contention and concern.

Paradox: The Dark Side of Corporate Responsibility

Viewed from the perspective of paradox, corporate responsibility highlights not only the light—or doing real social good—side of corporate involvement in society but also potentially reveals a hidden dark side. In some respects, corporate responsibility efforts can represent, at least to critics, part of an overall effort to disguise or at least mitigate the dark side of corporate strategies and their successes that arise directly from the power and resource commanded by many, particularly large transnational, companies today. Here's the tension: we have created a system of neoliberal economics in which success means continual growth and expansion, a focus on efficiency within the company (and externalizing costs wherever possible to society without regard for ecological or social costs), and individual company (private) control over resources, markets, customer preferences and choices, and employees (to name a few factors) (see Waddock 2016).

This system has resulted in huge multinational companies (MNCs), many of which are larger than the entire national economy of small countries. At the same time, there is little or no effective system of global or local governance over MNCs that can ensure that they are subordinated to the interests of the societies that they are intended to serve. The best that can be said is that a voluntary responsibility assurance system has emerged and that a few countries have promulgated new laws requiring various types of disclosure (Waddock 2008; Gilbert et al. 2011). For the most part, however, financial analysts, investors, and corporate leaders applaud voluntary approaches to corporate responsibility and seek to avoid more regulation of their activities.

Critics, of course, often note the problems associated with corporate dominance over socio-ecological interests (e.g., Lovins et al. 2018). Business leaders have responded—largely through their corporate responsibility initiatives and, more recently, through business association CEO statements. It is in these initiatives that the paradox arises. Think for a minute of the contrast inherent in the good works that many companies undertake for their communities, combined with the negative community impacts of so-called big box superstores on local communities. A favorite whipping boy in this regard, of course, is Walmart, whose hugely successful strategy of efficiency aimed at “low prices—always” attracts customers searching for those low prices, but simultaneously devastates local downtown shopping districts, pays low wages to contingency (part-time) workers, and creates incentives for more people to get into their cars and drive to shop, all the while destroying local jobs and economic opportunities. One estimate suggests that Walmart's trade deficit with

China alone has displaced more than 400,000 US jobs and represented as much as 15.3% of the US trade deficit with China between 2001 and 2013 (Scott 2015).

The result is what is called the Walmart effect (Fishman 2006), which includes outraged communities, about 2.2 million relatively low-paid workers at this writing, many of whom are “contingent” or part-time workers, huge discrimination lawsuits, an anti-union stance, and tremendous pressures on suppliers for efficiencies that drive sometimes already-poor human rights and labor practices even lower. Customers, of course, are happy with the low prices. We will explore Walmart’s situation in more detail later in the paper.

As with similarly successful companies in other industries (e.g., Starbucks, Home Depot, Facebook, Apple, Google, Microsoft), it is Walmart’s very success that has created the considerable downside unintended consequences for community, employees, workers in supply chain companies, the natural environment, and even whole societies that fear the homogenization that a Walmart brings. Companies like Walmart command enormous resources, great market clout, capacity to pressure suppliers, and political savvy to overcome many obstacles to strategic success. Effectively, they make choices for consumers about what they will be able to buy and even, in some cases, screen products that are not to their liking. In the case of technologically-driven companies like Google, Facebook, and Amazon, they subject users to what Zuboff has labelled surveillance capitalism—an invasion of privacy that is mostly well hidden (Zuboff 2019). But is a world dominated by the likes of Walmart—or any economic engine like it—really the world we want to live in and leave behind for our children? That is the fundamental question that faces us today and the paradox of corporate responsibility.

In a world dominated by economic interests, corporate power combines with the decidedly short-term thinking that seems characteristic of today’s financial markets and is inherently part of what Frederick (1995) termed economizing. The attendant power aggrandizing (Frederick 1995) means that not only do successful companies tend to become enormously large, but they also command significant market power and resources to use for their own purposes, rather than the good of all. Add in the seemingly endless series of scandals that show that self-regulatory and self-governance efforts do not always work, and you arrive at the paradox of corporate responsibility.

The Dark Sides of Corporate Responsibility

There are several fundamental issues embedded in the paradox of corporate responsibility raised by disconnects between intent and practice: (1) the short-term orientation on which both companies and financial markets operate and the long-term societal issues that short-term thinking creates; (2) an overly narrow focus on corporate responsibility as explicitly doing good, while ignoring other effects of companies’ business models; (3) the gap between the rhetoric and reality of many companies’ corporate responsibility; and (4) the reality that most corporate

responsibility agendas, even when quite broadly stated, fail to deal with the significant risks, impacts, and practices of companies that result from their business models.

Taken together, these issues represent the dark underbelly of corporate responsibility—and provide plenty of fodder for corporate critics and critics of the corporate responsibility movement (Bannerjee 2014). Below I explore this idea in more depth.

Short-Term Orientation

Corporations and the financial markets that they serve, despite years of critique, are still notoriously short-sighted. On one hand, short-term thinking forces companies to be efficient, using their resources wisely, producing positive results for shareholders, products and services for customers, and jobs for employees. On the other hand, sometimes short term thinking leads directly and indirectly to very “dark side” effects, including the ebb and flow of layoffs, lack of investments in “human resources” (i.e., people), the constant forming and reforming of companies that’s involved in waves of mergers, acquisitions, and restructurings, abusive practices in unmonitored supply chains, and negative ecological impacts. Short term-oriented practices have wrought havoc on employee loyalty, not to mention societies and the natural environment. Over years of corporate and political rhetoric about free markets, efficiency, continual growth, and the need for profits to sustain our material bents, we have come to accept these dark side effects—and even sometimes fail to recognize their negative impacts on people as individuals and communities as important parts of society.

Short-term thinking places significant demands on companies always to have to make a business case, i.e., the case for profitable outcomes, for undertaking much of any long-range activity, including investment in people, products, research and development, market research about real social needs. It seems clear from recent meta-studies (e.g., Friede et al. 2015; Busch and Friede 2018) that there is a positive relationship between corporate responsibility and good financial performance. It is also clear from a short-term perspective that irresponsibility can also produce good financial results. The performance of tobacco companies (selling products that in their normal use kill people) makes this reality clear. The clear imperative thought (erroneously, see Stout 2012) to be embedded in US law is an emphasis on profitability and shareholder wealth maximization through whatever means are feasible, with little regard for consequences typically labeled as externalities.

Indeed, even a reasonable business case for corporate responsibility in the broader sense, i.e., beyond simply “doing good” through charity and encompassing operational practices (Waddock and Rasche 2012), can be insufficient grounds for constructive action on the part of companies. Most business leaders and certainly the financial community are fully bought into the notion of maximizing shareholder wealth at all costs and focusing on this quarter’s earnings, because the financial markets expect returns. Yet some things are valuable of their own accord, whether or not they are profitable...as recent emphasis on dealing with climate change,

species extinction, inequality, and human rights (among other factors) indicates. These things relate to human values that go well beyond materiality to tap into something else in human nature that aspires to connection, love, and even spirituality.

Still, short-term thinking infects company decisions on just about everything, particularly when financial markets are taken into consideration (DesJardine and Bansal 2015). Short-termism; Milano (2018) played no small role in the numerous scandals that have hit the US and Europe during the early 2000s. Company leaders attempted to “improve” their near-term results to satisfy intense demands from financial markets...or to line their own pockets without regard for the long-term wellbeing of the company, employees, customers, investors, or societies. One need only think of ethics scandals at Volkswagen, WeWork, Google, Facebook, and Wells Fargo, among many others over the years to know that short-term (financial) interests drive many problematic behaviors.

An Overly Narrow Focus for Corporate Responsibility

One aspect of the short-term orientation is the suspicion by corporate critics that some (many) corporate responsibility initiatives are simply efforts to downplay some of the realities of today’s corporate practices and short-termism through image manipulation. In this view, corporate responsibility activities attempt to create the appearance of (and some actual) investment in the social good, while allowing companies to avoid the real responsibilities for the impacts that their short-term and exclusively profit-oriented practices, deeply embedded in their business models, have on employees, customers, even investors, and the natural environment.

Combine short-term thinking with a mindless growth-at-all-costs mentality emphasizing free trade and market building that rides roughshod over local and regional interests (Lovins et al. 2018). Add in the increased recognition of the importance of reputation to branded companies. It is perhaps no wonder that corporate (social) responsibility rhetoric and practice has emerged as a key phenomenon of the modern corporate landscape. By this reading, corporate responsibility efforts, particularly CSR aimed at doing explicit social good through charitable contributions of either money or in-kind services and goods, are efforts to put a good public face on the company, while it continues business as usual. Business as usual can involve practices like outsourcing from sweatshops, paving over vast tracts of land for parking lots, marketing to foster even more incentives for people to drive to shop, promoting consumption of scarce or non-renewable resources, continued use of fossil fuels known to impact climate change, abusive agricultural and animal husbandry practices, or producing either useless, unnecessary, and even harmful products (and so on). It is these business as usual practices that outrage critics, environmentalists, and community activists.

Numerous companies today highlight their voluntary corporate social responsibility in public forums like their websites, sustainability and ESG (environmental,

social, governance) reports and sometimes even integrated financial-ESG reports, and through their public statements. Yet the reality of corporate responsibility is rather more nuanced—and considerably more problematic. Sometimes, as noted above, the very strategic and financial success of firms results in negative consequences for society—or at least the consequences are negative in the eyes of critics. So, in response, many companies have developed sophisticated CSR programs. It is in the tension between CSR and the business model where the paradox of corporate responsibility lies.

Walmart's corporate mission is "to save people money so they can live better." The company articulates four core values: service to the customer, respect for the individual, strive for excellence, and act with integrity. Noting that it is using its strengths to make a difference, Walmart claims on its Global Responsibility page to be "using our strength to make a difference," through commitments around opportunity, sustainability and community, while simultaneously creating shared value for customers and society (<https://corporate.walmart.com/global-responsibility>). Indeed, Walmart's sustainability programs are forward-thinking and impressive, in part because of the clout the company has over its many, many suppliers. The company has a massive philanthropy program (over \$2 billion according to the website in 2019), and the company has been pressured into raising wages so that hourly wage rates in 2019 were \$14.03. The company has also built the largest onsite green generator in the US, and initiated many community-based activities.

The Rhetoric/Reality Gap

In the context described above skeptics and critics view corporate responsibility initiatives like Walmart has developed as mere window dressing, intended to draw attention away from other, sometimes negative, consequences of such large powerful corporations in society and on nature. That disconnect brings us to the third paradox of corporate responsibility: the rhetoric/reality gap.

Company leaders who have good intentions can feel caught in a conundrum of trying to look good to investors and employees in a social context where demands that they act as "good citizens" have dramatically escalated in recent years, but where short-term financial performance pressures seem bottomless and where the business imperative is to be efficient by externalizing costs whenever possible. More sophisticated customers, socially oriented investors, and activists have developed the skills to publicize perceived problems broadly and damage hard-won reputations. Fueled by global connectivity, growing awareness of pressure tactics like shareholder resolutions, and, in some instances, laws that are increasingly focused on various forms of disclosure and transparency in different parts of the world, companies are being pressured to act responsibly.

There may be some justification to the views of critics who claim that corporate responsibility largely represents an effort to cover up the dark side of capitalism, at least in some cases. This perspective seems reasonable if we compare the actual

behaviors and impacts of a company like Walmart with the impacts of its business model on many stakeholders. For example, Walmart's main claim is that it sells products that it meets customers wants and needs by selling products at low prices. Its business model epitomizes efficiency and embodying a low-cost strategy. Critics, however, claim that the big box stores create such a draw that "Main Street" stores and the core of many communities are devastated (e.g., a film produced in 2004 was called *Wal-Mart: The High Cost of Low Price*). Further, the company has been accused of predatory pricing so many times that when the company wanted to continue to build its market dominance in New Delhi, India (along with Amazon) local merchants erupted in protest (Altsteder and Bloomberg 2019). The company's relationship with its employees and particularly with unions that would like to organize workers has historically been equally as fraught as its community and local shopkeeper relationships. The quest for cost efficiency has resulted in approximately half of the company's workers being part time (full-time employees are more costly) (Bose 2018). In many ways Walmart has become the poster child for the corporate movement against unionization, leaving workers vulnerable and underpaid even as CEOs are paid ever more multiples of worker pay (e.g., Loomis 2018; Rosenfeld 2019). Working conditions in stores, not to mention in the supply chains of Walmart's thousands of suppliers, is often questioned as well, with the company having been accused of discrimination against women, wrongful termination, poor benefits, opposition to labor organizing, among other problems.

Behavior and the rhetoric about values do not seem in these and many other instances well matched to the values that can be observed by watching the actual practices of companies. More insidious even than the rhetoric/reality gap, however, is the lack of recognition of negative social impacts that derive from successful business models, the final and perhaps more important paradox to be discussed.

Impacts from the Business Model

But here's the thing: highly successful companies like Walmart—companies that have achieved wealth and competitive success beyond their founders' wildest dreams have developed strong CSR programs, but the actual responsibility embedded in their business models can often be strongly questioned. The tensions inherent in this situation are epitomized by *Fortune* magazine's 2004 awarding of the designation of "most admired" (and largest retail) corporation to Walmart. In the very same issue the magazine carried a thoughtful article by Jerry Useem entitled "Should We Admire Walmart?" that lays out the tension starkly:

There is an evil company in Arkansas, some say. It's a discount store—a very, very big discount store—and it will do just about anything to get bigger. You've seen the headlines. Illegal immigrants mopping its floors. Workers locked inside overnight. A big gender discrimination suit. Wages low enough to make *other* companies' workers go on strike. And we know what it does to weaker suppliers and competitors. Crushing the dream of the independent proprietor—an ideal as American as Thomas Jefferson—it is the enemy of all that's good and right in our nation.

There is another big discount store in Arkansas, yet this one couldn't be more different from the first. Founded by a folksy entrepreneur whose notions of third, industry, and the square deal were pure Ben Franklin, this company is not a tyrant but a servant. Passing along the gains of its brilliant distribution system to consumers, its farsighted managers have done nothing less than democratize the American dream. Its low prices are spurring productivity and helping win the fight against inflation. It is America's most admired company.

Weirdest part is, both these companies are named Walmart Stores, Inc. (Useem 2004, p. 118)

Ironically, as the paragraphs above make clear, it is the very success of Walmart's business strategy that has resulted in significant questions about its corporate responsibility, where that term is defined to mean the impacts that the company's strategies and operating practices have on stakeholders and the natural environment (Waddock and Rasche 2012). And it is questions like the ones raised by Useem about Walmart that are actually at the heart of many current debates about corporate responsibility.

Many companies are caught in a conundrum similar to the one that faces Walmart. On the one hand, they are trying to be effective global competitors strategically by using efficiency oriented (economizing (Frederick 1995)) strategies, combined with a continual growth orientation to satisfy investors' needs for profit "maximization". They are under significant pressure from their investors and the financial community continually to enhance performance and growth opportunities. Companies viewed as successful constantly grow their revenue and sales bases, selling more products and services to ever wider and more dispersed markets. To achieve success in highly competitive markets, many companies develop operating practices that externalize hidden or even unrecognized costs to society, while creating terrific shareholder returns.

Many companies, especially big and powerful ones like Walmart, Facebook, Amazon, and Google, may be using business models and strategies that disregard the consequences of their goods and services on local communities, whole societies, and particularly on nature in their quest to gain more market, financial, and customer-based power. Let us explore the corporate responsibility impacts of one dominant company—long the most visible icon of this societal problem: Walmart.

Walmart was the world's largest company by revenue in 2019, according to Fortune's Global 500, and also the world's largest (private) employer, with over 2.2 million employees (1.5 million in the US). (Other companies are bigger in terms of market/share price value, including Apple, Microsoft, Amazon, and Alphabet, among others, though many of these companies employ far fewer people). In 2019, the company had more than 11, 200 stores in 27 countries, as well as eCommerce websites in ten countries. As noted above, however, many of Walmart's practices have subjected it to serious and ongoing criticism around its stakeholder practices and ecological impacts, which exist despite its progressive sustainability policies. For example, ecological impacts include huge paved over tracts of land (some of which are abandoned when the company consolidates into larger facilities) and "forcing" customers to drive long distances to do basic shopping that used to be

done in local downtowns, worsening urban sprawl. Local culture and character are homogenized into one faceless low-prices always mentality, while local stores, particularly in neighboring communities to the Walmart facility suffer or simply go out of business in what has become known as the Walmart effect (Fishman 2006). Consumers, of course, benefit, at least in the short term while they still have jobs and money to spend, before their jobs are outsourced by suppliers, who must become as efficient as Walmart simply to do business with the giant retailer (e.g., Fishman 2006).

Walmart is not alone in evidencing negative corporate responsibility effects that directly result from their successful strategies. Nor is it alone in being subjected to the negative reputational impacts as critics have become more vocal and negative by-products company strategies more evident. Other powerful companies, e.g., Home Depot, Starbucks, Microsoft, Staples, Borders and Barnes & Noble, to name only a few, have developed similarly successful retail strategies that have resulted in stunning competitive success—at significant costs to other stakeholders (at least so critics claim), especially smaller competitors, local communities, and the environment. Nike’s successful efforts to become a design and marketing company, leaving the manufacture of its footwear to suppliers working on a cost-competitive basis in developing nations resulted in all kinds of accusations of human and labor rights abuses in its supply chain.

Big companies in the early 2020s like Facebook, Google, Microsoft, and Amazon have come under fire not only for their dominance of their “markets,” which they often created, but for practices that include what Zuboff (2019) labels surveillance capitalism. Zuboff defines surveillance capitalism as the “unilateral claiming of private human experience as free raw material for translation into behavioral data” (Laidler 2019), as well as other ethical lapses and stakeholder abuses. In surveillance capitalism, these (and other) companies are taking users’ private information without their knowledge and creating profiles that are then marketized by being sold to other companies for profit. Indeed, Zuboff’s (2019) claim is that such sources of profit are the main providers of revenue for companies like Google and Facebook.

These short examples make clear that possibly the most insidious paradox of corporate responsibility derives from the reality that in many instances is the very success of a company’s business model that creates problems in society, nature, or for stakeholders.

CSR as Failed Antidote

Traditional approaches to corporate responsibility, based on an understanding of corporate *social* responsibility that aims at the discretionary and philanthropic things that companies do to enhance their reputations do not seem sufficient to solve the real problems of corporate responsibility that derive from strategic success, the nature of which have been detailed above. Consider this: Leaders in these companies seem narrowly focused on economics and efficiency (economizing, Frederick

1995), rather than treating other stakeholders (and nature) with respect or truly understanding and dealing with the impacts of their business models.

Walmart founder Sam Walton articulated ten constructive and positive “rules” for business practice:

1. Commit to your business;
2. Share your profits with all your associates and treat them as partners;
3. Motivate your partners;
4. Communicate everything you possibly can to your partners;
5. Appreciate everything your associates do for the business;
6. Celebrate your success;
7. Listen to everyone in your company;
8. Exceed your customers’ expectations;
9. Control your expenses better than your competition;
10. Swim upstream. (Walmart, Our Story, <https://corporate.walmart.com/our-story/history/10-rules-for-building-a-business>)

There is nothing wrong (and indeed, much right) with these statements as a business model, however, his set of beliefs also comes close to a public articulation of Walmart’s corporate responsibility. That philosophy is articulated (as of 2019) as follows:

At Walmart, we’re committed to using our size and scale for good. Not just for our customers, or even our associates, suppliers, and their families, but also for the people in our communities and around the world that we will never meet. We’re proud to say that the work we do makes a real difference on the real issues that matter to all of us, and drives meaningful change in a way that no other company can.

Beyond producing a whole systems change and shared value, our approach to global responsibility also underscores the importance of true integration into our core business, drawing upon our core capabilities and strengths, and collective action through collaboration with supplier and industry partners, and key stakeholders. (Walmart Global Responsibility, <https://corporate.walmart.com/>)

While laudable in its own right, the CSR activities of a company like Walmart do not constitute good corporate responsibility (defined in the broad sense) when then company’s (sometimes negative) impacts are as many and as broad in scope as Walmart’s. Something more is needed to balance the interests of society against those of economy, something that is unlikely to happen based on companies’ good will alone, simply because their incentives are focused on short-term profitability and share price. True to its business mission of efficiency and low cost products, Walmart’s 2019 ESG (environmental, social, and governance) report claimed up front that “Our approach to ESG topics is rooted in our company’s purpose to save people money so they can live better” (Walmart, ESG Report 2019, <https://corporate.walmart.com/esgreport/>). Or buy more stuff, and more stuff in a world already suffering from climate change and real potential for ecosystem collapse.

Indeed, from an ecological perspective, some of Walmart’s sustainability programs have achieved impressive results, reducing greenhouse gases 6.15 (between

2015 and 2017), diverting 78% of waste from landfills and incineration. The company has created a Sustainability Index that covers 80% of goods supplied by its thousands of suppliers, among other achievements and, according to *Climatewire*, suppliers are “slashing their CO₂” as a result (Fialka 2019).

Yet, according to the ESG report, Walmart’s full-time employees earned \$14.26 per hour in 2019 (about \$30 K per year assuming a 40-h work week and 52 weeks/year). But of course only about 50% of the company’s employees work full time, and there are far fewer benefits associated with part-time work, and the starting hourly wage is \$11/hour (granted still above minimum wage), which seems to be what most employees in stores actually make (aside from managers) (Cain 2019). The company remains staunchly anti-union, threatening to close stores that want to unionize (Greenhouse 2015), and despite increases in pay maintains a considerable “contingent” workforce paid less and with fewer benefits than full-time employees.

Over the years, Walmart has worked hard to improve its relationships with communities where it operates. That said, the Walmart effect still triggers protests when the company decides to locate a store, because of fears about the negative community impacts. As Amazon, the online retailer has gained clout and eroded Walmart’s market share, some Walmart stores have closed, leaving the communities they were in economically destroyed (Kaye 2017). The problem is particularly difficult to resolve because the company’s low-cost, market dominance strategy has frequently left communities without many alternatives for meeting local citizens’ needs locally.

Societal wellbeing depends on healthy companies, to be sure, but it also depends on healthy and vibrant communities with a sound and diverse economic base, good treatment of employees, who are paid enough to live on, and of other stakeholders. It depends as well on the availability of products and services that add true value for customers and do not detract from ecological sustainability. Doing these things well...meeting the real demands of corporate responsibility...means that society itself (through governments) must specify the standards to be met—and ensure that companies actually live up to those standards. And this list of issues facing the company—as a direct result of its business model—only scratches the surface. But it does highlight the paradox of corporate responsibility very well.

It is increasingly clear that the corporate responsibility agenda is being misinterpreted—and perhaps misused—by companies as a smokescreen to hide the real negative impacts of some of their practices, the ironic fruits of success for the company that result in problems and externalities imposed on societies. Even as conservative a magazine as *The Economist* has long recognized these realities:

...private enterprise serves the public good only if certain stringent conditions are met. As a result, getting the most out of capitalism requires public intervention of various kinds, and a lot of it: taxes, public spending, regulation in many different areas of business activity. It also requires corporate executives to be accountable—but to the right people and in the right way. (Crook 2005)

As long as corporate responsibility/responsibility is narrowly interpreted to mean specific “do good” activities and, indeed, as long as societies rely on the voluntary good will of managers to behave in responsible ways when the incentives of profitability push them in other directions, there will be problems and externalities that derive directly from the successes of companies, just as we have seen with Walmart.

What is needed, in many respects, is a redirection of corporate purpose—away from shareholder wealth maximization towards balancing the needs and interests of many stakeholders and including in that set of stakeholders companies' impacts on the natural environment. That kind of massive systemic change is potentially long in coming, however, the dire state of the natural environment's capacity to support human civilization, the advent of significant climate change (Ripple et al. 2019), species extinction (Diaz et al. 2019), and growing inequality (Saez and Zucman 2016), fostered in part by corporate practices today, seem to make change inevitable.

Conclusion

Most companies are simply trying to succeed by playing by the current rules of the game, which allow them to externalize many of their real costs to society without much regard for the true consequences of their actions and strategies. So arguably few of these companies' leaders are ill-intentioned. All are trying to meet the expectations that have deliberately been placed on them by (in this case American) society. In conforming to today's expectations, companies seek to maximize profits in the best interest of shareholders, to grow constantly, to act as if "externalities" do not matter, and to reap the rewards of competitive success for their companies and career success for themselves. In focusing on these goals, however, corporate leaders too often overlook or ignore the societal and ecological implications of their actions and of their successes—their true responsibilities as companies. They act, as Bakan's (2004) explosive book (and related movie) *The Corporation* pointed out, as sociopaths, even when they have adopted CSR measures (Bakan 2020). And to control a sociopath, we need to go well beyond CSR to reforming and reframing the very purposes of corporations, in a sense taking them back to their roots of staying in existence only so long as they serve the public welfare. Then companies could exhibit real corporate responsibility by balancing the interests and needs of the many stakeholders affected by their activities.

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Chapter 18

The Marketing of Human Images as a Challenge to Ethical Leadership



Robert Audi

Abstract Nothing is ethically more important in marketing than the human images communicated with goods and services. Why should marketing be a special challenge for ethical leadership in business and a major topic in business ethics? The answer, in large part, is that marketing influences a great deal of human conduct and, indeed, often influences it *subconsciously*. It is the kind of marketing with the greatest impact on conduct that concerns us. The aim of this paper is to identify some of the dimensions of marketing that raise ethical questions and to address the challenges they pose for leadership in business. In the light of the picture that emerges, this chapter will formulate some broad ethical standards that should be useful in guiding marketing.

Keywords Human images · Marketing · Ethical leadership · Ethical standards · Holistic · Leaders in marketing

The rapid spread of visual media is enormously influential in the contemporary world. The recent increase in access to the internet heightens the problem of how to bring ethics to bear in guiding this media influence, especially in marketing. Nothing is ethically more important in marketing than the human images communicated with goods and services. This holds even where what is marketed is inanimate. To be sure, human images are not commonly conceived as marketed because, in marketing situations, they most often appear as secondary to the sale of a product or service. But in a broad sense they are marketed, even if no one pays either to view them or even to receive a replica, such as a photograph of a model wearing garments that exhibit the latest style. What we “buy” has a correspondingly broad sense: we buy not just goods and services but—especially with services—these *as* presented by someone who is seen as a user of the product or a purveyor of the service. In

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many cases, there is a sense in which we do not buy goods or, especially, services unless we in effect buy an image of ourselves using them.

Why should marketing be a special challenge for ethical leadership in business and a major topic in business ethics? The answer, in large part, is that marketing influences a great deal of human conduct and, indeed, often influences it *subconsciously*.¹ There is little reason to doubt that people—and especially children—often think or act in a certain way because they have seen a certain kind of human model in a marketing situation. Prominently in advertising, but also influentially in selling goods directly or in rendering services, businesses *present* people. Effective marketing presents them attractively. Doubtless presenting people attractively is in part a result of aesthetic factors; but a reasonable hypothesis is that it occurs mainly because marketers commonly seek identification or emulation and take attractive people to be (for most products and services) most likely to achieve that in the psychology of prospective consumers. When marketing succeeds, it constitutes, in the domain of consumption, an exercise of leadership, at least in the sense that by it people are intentionally *led* in a given direction. Any successful marketer, then, leads others in some way. A leader in marketing does this in major ways.² A leader in a company that does marketing has an ethical responsibility to use this kind of power within appropriate limits.

The aim of marketing is purportedly commercial, but in fact its effects are often much broader. Advertisements may lead one to buy a suit; but the hairstyle and even the facial expression of the model—especially if the advertisement is attractively filmed and scripted—may influence conduct. The influence may be in any walk of life, in or outside the workplace. It also commonly extends beyond the context in which a model is shown.

Where leadership is exercised, conduct is influenced. Where conduct is influenced, ethics is highly pertinent. The aim of this paper is to identify some of the dimensions of marketing that raise ethical questions and to address challenges they pose for leadership in business. In the light of the picture that emerges, I will formulate some broad ethical standards that should be useful in guiding marketing. Certain kinds of marketing will not be in question; it is those with the greatest impact on conduct that concern me, but this criterion encompasses a great many kinds of marketing, and in principle any kind of marketing can present or affect human images and thereby conduct.

¹For discussion of the influence of subconscious effects and how information that is processed peripherally see Petty, Cacioppo, and Schumann (1983).

²For a case that advertising that exercises a subliminal influence on potential buyers undermines autonomy and is thereby ethically objectionable, see Crisp (1987).

A Holistic Conception of Marketing

For purposes of this paper, marketing will be conceived as *the process of offering goods, services, or living things, for a consideration*. Even this wide description may not be broad enough to include everything that can be marketed. But note that the notion of a consideration covers non-monetary exchanges and other ways of fulfilling a commercial purpose. Moreover, we may take abstract entities, such as plans, designs, and ideas, to be a kind of good (or at least product in the wide sense that includes anything we produce) and I am construing both services and living things broadly.

The notion of a consideration needs further comment. As the marketing of political candidates shows, the consideration a marketer seeks for what is marketed need not be monetary. One might still balk at saying that it can be a vote. But even if the idea of marketing a candidate is metaphorical, the same might be said of marketing an idea if all that its seller seeks is persuading people to take a point of view. But just as those who buy an idea (in the sense of adopting it) take it in as their own, people who vote for a candidate are prepared to take that person as theirs—their president, governor, representative, and so forth. One might object that here we have only *promoting* the idea or candidate; if there is no commercial purpose on the part of whoever offers the idea (not necessarily someone whose idea it is) we (arguably) do not have genuine marketing. There is, however, still a sense in which the promoter may be “selling” the idea, and certainly candidates provide services that may be in some sense bought by electing them. In any case, some of the points to be made in this paper about marketing in an uncontroversial sense apply to marketing in the extended sense such cases illustrate.

More positively, I am suggesting that marketing is a kind of *promotional representation*. We may not say, however, that every case of the latter is a case of the former. I can promote a point of view not to persuade hearers to “buy” it but simply to defend my rationality in taking it. Tolerance rather than “purchase” may be all I hope for. Here, there may be neither a consideration nor the kind of uptake at which marketing aims.

The idea of promotional representation enables us to see that there is a sense in which we can be marketing something even if selling that particular thing is not our commercial *target* in the marketing activity. Our target may be to market clothes or equipment for playing rock music, but we may be unable to do this successfully without in effect marketing our clothes model or the kind of music that the equipment is designed to play. On my view, then, our conception of marketing should be *holistic* rather than piecemeal.

Marketing and Production as Interconnected Domains of Decision

For our purposes here, it is useful to speak of marketing and of issues in marketing ethics independently of production and of ethical concerns regarding that. After all, in principle (one might well think), production should be directed by a combination of product desirability and anticipated profits. Few products, however, need no marketing. Hence, in determining the profitability, and indeed even the desirability in an overall sense, of producing something for sale, one has to consider how it will be marketed. A desirable product coming at the wrong time, or in the wrong place, or offered to the wrong potential users, may be impossible to market effectively and may fail to fulfill its purpose.

Marketing, then, can turn out to be absolutely crucial for determining what is produced or offered for sale: a good thing one cannot market one also cannot in general afford to produce (at least for long or in great quantity). Now suppose that a thing cannot or will not be marketed ethically. This raises a different problem. Consider, for instance, cigarettes in relation to youth. Suppose it is not possible to avoid their being marketed to young people, at least in the sense that effective marketing of them will, owing to how it makes smoking attractive, affect young people, including children old enough so that they cannot be prevented from seeing some of the advertising. The inevitability of this *indirect marketing*, as we might call it, will be a consideration in any ethical decision regarding whether and how extensively to produce them. One might also speak of *unconscious marketing* here, if the marketers have no awareness of the de facto marketing they are doing. An important ethical point bearing on that possibility is that unconsciousness of what one is doing need not be excusatory. If we unconsciously do something we should not do but ought to have known we were or might be doing, we are morally responsible for doing it.

Here, of course, we can distinguish between marketing and advertising. One might market cigarettes to adults by the way one packages them and informs potential users of their availability. This does not entail advertising in the ordinary sense. One could simply make information available on request, as where users are told what toll-free number to call for further information or mail orders. Moreover, advertising itself may or may not be accessible to the entire public. Advertisements may be displayed inside public busses, but they may also be confined to special audiences, as where they occur in magazines not legally sold to minors.

If one conceives marketers as agents of producers, one may think that the ethics of marketing is fundamentally to be applied on the production side. The idea would be not that marketers cannot decide ethical matters, but rather that a good production decision should be accompanied by a marketing plan that conforms to appropriate ethical standards. Ethically speaking, it should indeed do so; but in large companies, and particularly in a multinational one whose headquarters is far from many of its sales territories, there will be much discretion exercised by marketers, particularly in nations with laws less restrictive than those of the home country. Here special efforts may be needed to ensure that ethical considerations are not

omitted or given short shrift. CEOs and upper management in general cannot in practice dictate every marketing decision. Even if detailed guidelines are laid down, there is still a huge range of options left open, particularly as regards the subtleties of presenting human images. Some of these presentations, as we shall see, are more ethical than others.

Marketing and the Human Image

I have been emphasizing the point that marketing must be considered holistically, not just in a piecemeal fashion that presupposes a focal target for every product or service. A further distinction important here is between goods and services that need a representation of a person for their marketing and those that do not. Most goods and services either do need it or can succeed better when they have it. Even supplies like paper and hardware may often be sold better if shown in situations of use by people with whom potential buyers can in some way identify. This point affects directions given to sales people as well as to advertisements. But (although I will not consider such cases) a human image may be implicit, as where the use of the product or the rendering of the service implies a certain stance or approach by the person(s) in question.

It is important here to examine some examples. Naturally, one thinks of advertising; but although this is the most prominent area in which human images are marketed, it is not the only one. Consider newspapers and magazines. They are marketed in part by the pictures and headlines they contain. Quite apart from advertising, a newspaper may try to attract readers by showing pictures, say of victims of crime, or of starving children, or of agonized parents of children killed in floods. Newspapers may also use alluring headlines or dramatize certain stories by, for instance, calling a terrorist a ‘mastermind’ (a term which mixes the good with the bad and, whatever one thinks of its appropriateness here, is not neutral).

These cases deserve further consideration, but here I will concentrate on advertising as the activity in which human images are most prominently put forward in contemporary culture in the developed countries. I shall consider particularly four problem areas: the representation of women, the portrayal of people who need medications, the representation of the environment as a domain of product use, and the representation of communication between persons. Since this is a normative and conceptual inquiry, I shall not marshal detailed empirical data, but the examples I give will be representative of familiar kinds of advertising (at least in the industrialized world) and will indicate what kind of data might be sought by anyone wanting to pursue empirical hypotheses related to the position I am developing.³ It is appropriate to add, however, that there are empirical data to support the view (taken

³For descriptions of advertising in other nations, and especially in Australia and the UK, see Spence and Van Heekeren (2005). They also provide instances of codes or proposed codes meant to elicit voluntary compliance with various ethical standards.

in this paper) that images in advertising significantly affect behavior. A striking case in point is the use of “shock tactics” in Australia to reduce highway fatalities:

Such advertisements have depicted, in most graphic fashion, children and adults being hit and dragged under cars, a mother cradling a son killed on a crosswalk by a speeding car... a youth crying for a brother whom he killed in a drunken-driving crash... [with] a dramatic effect on Victoria’s road toll, seeing road fatalities reduced by 50 percent in the first five years. (Spence and Van Heekeren 2005: 108)

Advertisements for clothing and ordinary products cannot be assumed to have as powerful an effect; but given their pervasiveness in the reading and viewing of huge numbers of people, their effect must not be underestimated.

The Representation of Women

There is no one way in which marketers represent women, and certainly the female images presented in advertising vary greatly. But particularly in magazine advertising of clothing, there is often something that deserves scrutiny and, in my judgment, there is nearly as often something that should be altered. A prominent example is the Sunday advertising supplement in *The New York Times*, which is a respected and widely circulating newspaper. The supplement has commonly shown women with expressions, and in poses, that, particularly given the clothing modeled, make them look sultry, even “cheap.” In the opening pages of the Spring 2006 Edition, for instance, we see a model in an erotic pose in which the underside of her almost unclothed buttocks is the visual center of the picture. A few pages later we see a Terri Jon ad by Rickie Freeman showing a woman lying on her back on a sofa, her legs rising over its arm and back with her skirt fallen above the knees, and looking fixedly up (apparently at a romantic partner), lips parted to enhance an inviting facial expression. A still more unflattering portrait is an Agent Provocateur advertisement in the *Magazine of the New York Times* which pictures a woman astride an inflated artificial fish on the floor and leaning forward with pursed lips to kiss the mouth of an inflated plastic teddy-bear-like animal which she holds in her hands, while just beneath her loins is a phallic-shaped protrusion from the fish. She is shown clothed only in black stockings, briefs, a brassiere, and long white gloves (2006, 61–2). The suggested bestiality is presumably meant to evoke an image human sexuality but presents a degrading image for the model.

In this context it is useful to distinguish between advertising (and other kinds of marketing) that present a *human image* and those that present only or mainly a *body image*. Even a headless model in a shop window can present a body image: a projection of how the body should look or be shaped. A body image can be projected with no implications concerning conduct or personality, just as a human image can be presented—say, either by people with their bodies obscured by loose clothing or by people with very different bodies that are in no case likely to draw attention to themselves. Ethical marketing is concerned with both kinds of images. The main concern

in this paper is human images, but certainly body images are both important in themselves and may be presented at the same time as human images, as where clothing is modeled by people with expressive faces, in suggestive poses, and with their bodies eye-catchingly displayed at the same time.

There has also been a tendency, in much advertising of clothing for women, to use models who are extremely thin, and often a human image is presented as well as this slender body image. I do not know what evidence there is that either this pattern or sexual suggestion is more effective in selling garments than alternatives, but it is well known that in the U. S., at least, some adolescent girls have been preoccupied with being thin to the point of anorexia or bulimia.

These examples from *The Times* are not unrepresentative of advertising in many other print media. They would be objectionable quite apart from whether they represent women more degradingly than clothing advertisements represent men. I believe, however, that this difference is commonly found. The Men's Fashion Supplement of the *Times* (2006), in comparison with the Women's Supplement cited above, is some confirmation. I am certainly not implying that the representation of men in clothing advertisements is beyond criticism, but my observations in the English-speaking world indicate that there is significantly *less* to criticize here (though in the *Times* fashion magazine men are also represented in ways that are at best unflattering).⁴

In comparing the roles of men and women in marketing, and particularly in advertising, it is noteworthy that images of women are more commonly used in relation to household goods and men are more often used in relation to business goods and services. There appears to be a guiding view that, by and large, one sells products better by associating them with images of those who use them most. It is interesting to suppose this is true and ask what it might imply ethically. Here I have three points.

First, I am criticizing advertisements for negative qualities, not suggesting that marketing ethics requires marketers to sacrifice sales in order to promote desirable social patterns, such as equal representation of women in business. But second, marketing ethics does call on marketers to avoid stereotyping, for instance implying that *only* women appropriately do domestic tasks or *only* men do managerial jobs.

My third point is a response to the first two. It is an empirical question how much is lost in sales if, to avoid stereotyping, marketers seek to undermine stereotypes like those just mentioned by diversifying the human images they use in the advertising and other marketing activities. I would hypothesize that if anything is lost by the level of diversity required to avoid or even weaken stereotypes, it is little enough to

⁴Insofar as a recent study is representative of male and female attitudes toward dress, there is a certain irony in women's apparently tolerating a lower standard than men in advertising targeting them. Cooper (2005), reporting the results of a study of male and female attitudes toward dress codes for National Basketball Association players appearing in off-court NBA events, reports that "Overwhelmingly, the women (many of whom are single parents) favored dress codes" (p. 9). He speaks of their "Disdain for looking like a thug" (p. 9), a phrase that might evoke the thought of disdain for looking like a sex object, as some women in clothing advertisements are made to appear.

make conscientious marketers willing to pay it. My hope is both to help to motivate more work on the empirical question and to urge more attention to the positive goal I am stressing.

Healthcare Products

Drug companies are among the largest and most pervasive advertisers, and the human images they market along with their products are important. My own observations indicate that they very often use images of people they think potential users want to be like rather than realistic images of people who need the product in question. This is not in itself unethical, but it can easily approach being manipulative. If it is manipulative, in the sense that it creates a greater felt desire for the product than is in the interest of the potential buyer, then—unless the product is entirely harmless if used as is normal—advertising it is to some degree reprehensible.⁵ If the product is entirely harmless, then it falls in the category of many other things one may want but does not need. In those cases, if marketers make no false or deceitful claims, they may be perfectly in the clear on this score.

A quite different concern is the use of human images in a way that, given the content of advertising, conveys a false impression of the normality, or at least the commonness, of the conditions calling for the kind of drug in question, together with an inadequate sense of undesirable side effects. Granting that many people have headaches or difficulty sleeping, by showing young and very healthy-looking people taking the remedies and by the accompanying wording, many advertisements convey the impression that it is both normal and safe to take the relevant remedies for long periods. In television advertising, warnings may be given rapidly in a recitation easily downplayed or even ignored; in print they are commonly in small fonts.

In part, my hypothesis is that much marketing of healthcare products presents a biased sample of people needing them, and in part it is that they use human images to evoke a false impression of the normality and safety of extensive use. In a free society, neither point would automatically imply that legal restriction should be imposed, but both points indicate that ethical restraints should be applied at *least* to the extent that is financially feasible. In many cases of pharmaceutical marketing, this standard remains to be adequately achieved.

⁵ We have to say ‘as is normal’ rather than ‘as directed’ because (in cases like this) ethics concerns what harms are likely given real conditions, not given ideal ones.

Images of Environmental Use

Here I must say at the outset that the points I want to make about marketing in relation to the environment bear perhaps as much on what should be produced in the first place as on how what *is* produced should be marketed. But since the question what to produce (for profit) is in practice inseparable from the question how it is to be sold, that connection is a reality that business ethics must address in any case. Let me cite three examples.

It has been common in the United States (for several years through at least 2005) for advertisements for sport utility vehicles and light trucks to show them climbing steep grades in what looks like unspoiled mountainous areas. The typical driver is meant to seem quite masculine. The image is readily seen as one of a virile man conquering virgin land. Must the masculine associations (apparently) needed for good marketing of such vehicles be evoked at the expense of making the associated degradation of the land look like an innocent sport? Might climbing a steep road—or perhaps a very steep grade created for the purpose—do as well? If not, that may suggest that, as mounting greenhouse gases indicate, the product should be used far less and manufacturing should be redirected toward more efficient vehicles. The question may in any case deserve more investigation than it has received.

Another area of concern is that of lawn treatments. In the United States, at least, these are represented as normal, and men rather than women are standardly represented as applying them. I have two concerns. First, might women also be represented to diversify the imaging that goes with the product? Second, and more problematic for marketers, might an effort be made to stress safe ways to use the chemical and to minimize environmental effects? I say this is more problematic because it may point in the direction of reduced usage, hence reduced sales, or at least in the direction of further development of organic substitutes.

A third case is that of the Archer Daniels Midland advertisements common on Public Television in the United States in recent years. We are shown vast expanses of farmland, but also people in various parts of the world who are supposed to be positively affected. The diversity of people shown is welcome, but the suggestion of agricultural development without environmental impact—whether, for instance, as a result of chemical fertilizers or of deforestation—is at best misleading. Again, there is some question how much can be done without reducing sales. I do not have an answer; I am simply proposing that the question should be asked and more often pursued empirically.

Communicative Images

Two kinds of examples will serve here. Both concern communication actually represented in speech with the implication that what is represented is normal.

For many years, political advertisements in the United States have commonly been given by men having low, admonitory, voices. In the (quite common) case of negative advertisements, they seem intended to evoke fear; for positive ones, they are meant to evoke awe or at least imply authority. They are characteristically artificial in tone and simplistic in message. We live in an age in which reasoned political decisions are immensely important. Presenting stereotypes or images of fear in place of adequate descriptions is reprehensible. A free society cannot make it illegal on that count, but marketers can do more to resist being made tools of politicians. Moreover, the consciousness raised by the kind of discussions I hope to encourage can help the public to resist the influence of simplistic political marketing.

A quite different case is *dialogue* used in marketing, and especially in advertisements. When ordinary people are represented, as where one spouse is seen talking to another, a lowest common denominator mode of speech is common. Similarly, when young people are represented, they sometimes speak in trendy ways that are thought to be “cool” but otherwise may be undesirable. A frequently encountered case in advertising in the United States is the use, especially in young females, of an interrogative intonation at the end of declarative sentence, a rising of the pitch that gives the impression of uncertainty. This intonation (sometimes called “upspeak”) creates an image of, if not timidity, exaggerated tentativeness. Particularly since it is less common in men, it tends to conduce to stereotyping females as less decisive than men. Granting that potential users should not be made uncomfortable or alienated from the scripted characters because of the speech patterns they use, the question I want to press is whether marketers should consider providing the best communicative models that are compatible with good sales. In my view, they should, and I doubt that they commonly do.

The Challenge for Business Leaders

The kinds of problems I have highlighted in the marketing of human images pose a challenge to business leaders. I have in mind especially CEOs, but significant leadership in marketing can and should also come at lower levels. I also maintain that since marketing has such wide influence on both the behavior and the thinking of societies in which it is a prominent element, the obligations of ethical marketing are a kind of obligation of citizenship itself. Major companies are important elements in society, and their leadership is important for the culture and well-being of the societies they pervade. In very general terms, the challenge this poses for business leaders is to keep profits strong while doing ethical marketing. I do not presume to know just how commercially effective the kinds of marketing I have criticized are. But let us suppose that there is *some* empirical evidence favoring the kind of advertising I have criticized over kinds that more positively represent human beings. What ethical standards should govern decisions of the kind marketers must make? I will restrict the discussion to come to ethics of purveying images.

The main question here is one of achieving a balanced application of general moral standards. Let us start with those (some already mentioned above) and then ascertain some points about application.

My concern is the marketing of human images, but I begin more generally with broad ethical standards, then focus on the case at hand. Below are some virtually universally respected ethical standards which, in (2004), where I take off from the classical common-sense ethical view articulated by Ross (1930), I have explicated and defended in detail.

The first obligation in question is that of *justice*, including the positive duty to prevent and rectify injustice as well as, even more urgently, the negative duty not to commit injustice. The obligations of justice apply, in principle, to every realm of human relations and certainly in marketing, where (as we have seen) stereotyping and misrepresenting (among other things) can constitute injustices to potential buyers.

The second case is the obligation of *non-injury*, roughly, the obligation to avoid harming others. Given human vulnerability, this is an obligation we hope others will fulfill and must try to fulfill ourselves. In marketing, it particularly applies to children and others who are highly vulnerable. In addition to the risk of adversely influencing children in marketing tobacco and drugs, there is the problem of childhood obesity (for an indication of its seriousness and relation to marketing see Moore, 2006). Psychological as well as physical injury must be included in adhering to this injunction—a point of special significance in marketing.

A third major obligation is that of *fidelity*. This is a matter of promise keeping and avoidance of lying (both are cases of fidelity to our word). Honesty in what we say is crucial in any walk of life, and, in business, including advertising, it is normally essential for the trust that is crucial for effective marketing over the long term. The requirement here goes beyond the prohibition of lying. Dishonesty need not imply lying; certain kinds of deception—as where advertisers present a highly biased selection of facts—can manifest dishonesty. Here only truths may be presented; but their ordering and the lack of appropriate contrasting facts may render the marketing in question deceptive. This is not to say that ethical marketing may never result in deceiving a viewer about the product or service; some deception may be inevitable in the casual or uncritical viewer. Broadly, the ethical aim here is to avoid being deceptive toward a normal viewer giving normal attention to the promotion. (The clarification of this aim is a major task that deserves a paper in its own right.) As to promissory fidelity, given that marketing is a kind of promotional representation of what is marketed, it may be viewed as entailing a promise or similar commitment regarding the quality of the goods or services in question.

A fourth kind of obligation is that of *reparation*. The obligation here is to make amends for wrong-doing. This applies above all to people who are wronged and should be compensated. It applies to marketing as elsewhere. The examples that come most readily to mind are from the pharmaceutical industry. The Thalidomide case is among the famous ones in which reparations were due.

The fifth basic obligation to be stressed here is that of *beneficence*: the duty to do good deeds, in particular to contribute to virtue, knowledge, or pleasure in others.

Medical benefits, pensions, and services such as counseling come under this heading as applied in business. But the dimensions of beneficence are unlimited. There is no good formula for deciding when, given the many opportunities most of us have, one has fulfilled this obligation; but it is widely agreed that, at least if no self-sacrifice is required to do something good for others, then doing it is within the scope of the duty of beneficence. Marketing of valuable goods and services for a fair consideration may be considered to some degree beneficent, even if beneficence is no part of its motivation; but—in ways I have illustrated in the previous section, ethics calls on us to seek opportunities to do more good than we would do in the course of simply achieving our own aims, commercial or personal.

The sixth obligation on the list presented here is that of *self-improvement*: the obligation to better oneself. Prudence, to be sure, points in the same direction, but particularly in business, the alignment of morality with prudence should be welcome news. The obligation of self-improvement calls for enhancement both in our character (virtue in a formerly more usual terminology) and in our knowledge. Indeed, as role models, business leaders, in marketing as in other areas, may even have a heavier obligation of self-improvement.

The seventh obligation in question is *gratitude*: the obligation to express appreciation for good deeds toward us, where these include good work done under our direction as well as beneficent deeds toward us. This obligation becomes stronger roughly in proportion to how difficult the good deeds are and in inverse proportion to how strong an obligation the person in question has (or had) to do them. In marketing, its proper role may be most prominent in offering benefits, such as rebates and privileges, in return for purchases. Purchases may be viewed as voluntary rather than obligatory; and even if profitable marketing is aided by certain expressions of gratitude, they may be appropriate as fulfillments of gratitude (and indeed of beneficence).

In my view (2004, chapter 5) there are two further *prima facie* obligations that are not adequately reflected in Ross (1930) and have a similar status.

The first is *liberty*, the obligation to preserve and, where possible, enhance freedom and autonomy (roughly, self-government) in persons. In marketing, this obligation has most obvious bearing on the avoidance of manipulation of viewers, as where subliminal or indirect messages they do not know they have received may influence conduct or, less insidious, they are wrongly made to feel that without a product they are inferior (see Crisp 1987 for discussion of how marketing may undermine autonomy). In business in general, the obligation of liberty implies permitting and sometimes encouraging innovation, as in marketing what one produces. (Nurturing freedom and autonomy are doubtless typically also a case of beneficence, but neither beneficence nor justice exhausts the content of the obligations in the range of liberty).

The second obligation beyond Ross's list is constituted by what I call *obligations of manner* (roughly, of respectfulness). These concern *how* we do what is obligatory as opposed to *what* we must do in some way or other. The obligations encompassed by obligations of manner require some explanation. They are in a certain sense adverbial. Consider treating people who are targets of marketing sincerely as

opposed to manipulatively, or promoting products informatively rather than just persuasively. These contrasts suggest many distinctions to be made in marking and many choices on which good ethics bears.

Giving this set of common-sensical obligations a central place in determining ethical conduct is not confining. The standards are high, but not overdemanding. The framework is, moreover, compatible with various ethical theories. These principles do not stand in *need* of justification from other considerations, but they can be supported by many kinds of theories, notably those of Kant (1956), of utilitarianism (Mill 1987) and of Aristotelian virtue ethics (Aristotle 2002).⁶

One might think that because the principles constitute (the core of) a rule ethics, they do not comport well with a virtue ethics and hence are not Aristotelian in any significant way. But recall that the obligations expressed are *prima facie*; this indicates not only that they are not absolute obligations but that practical wisdom—a central notion in Aristotelian virtue ethics—may be needed to determine whether, in a given context they are final. Practical wisdom is, if not the master virtue, a virtuous condition of intellect that is essential for practical ethics.

A second point pertinent here is that, to every *prima facie* obligation on the list there corresponds one or more virtues. Some of the obligations are indeed named in virtue terms: those of justice, fidelity, beneficence, and gratitude (a narrow virtue, perhaps, but a virtue nonetheless). To non-injury there corresponds civility, kindness, and many other virtues; to reparation, fairness (among others); to self-improvement, self-respect and one kind of pride; to the obligations regarding liberty and the manner of actions, respectfulness is perhaps the main corresponding virtue. It is in part a practical question—and one important for leadership in business—when it is most fruitful to guide people by stressing a virtue rather than the corresponding principle. But for many everyday purposes and most theoretical purposes, the statements in terms of principles of obligation seem best. In these, kinds of conduct are named for explicitness, and the *prima facie* qualification is present to forestall both the error of taking any one obligation to be absolute and the error of thinking there can be no conflicts among the various obligations.⁷

As it happens, these principles of obligation cannot plausibly be put in hierarchical order. It is plausible to consider some more weighty than others by and large, say the obligation of non-injury as against that of beneficence, but we should not conclude that *no* amount of beneficence on the part of an act can outweigh even a slightly injurious consequence. Similarly, the obligation to avoid doing injustice usually takes precedence over that of beneficence. Since restricting freedom of expression is an injustice, censorship of advertising is (apart from special cases such as advertising pornography to children) unjustifiable in a free society even if it should be desirable on the basis of beneficence. But in special cases a strong

⁶How Kantian ethics may be used to support the truth of Rossian principles of *prima facie* obligation is shown in ch 3 of Audi (2004).

⁷For applications of both rules and virtues to marketing ethics, see Murphy et al. (2005).

obligation in one category might outweigh a weak one in any other (as I have argued in 2006: 181–85). Ethical leadership in marketing must contend with this.

It should be noted that the ethical principles here substantially overlap those of the American Marketing Association's Code of Ethics, which is also plausibly considered non-hierarchical. It stresses non-injury (saying that marketers must "do no harm"), honesty, responsibility, fairness, respect, openness, and citizenship (the code is reprinted in Murphy et al. 2005: 14–16). Here it is respect (for "the basic human dignity of all stakeholders") that is probably most pertinent to this paper, and under that heading "depicting demographic (e.g. gender, race, sexual) groups in a dehumanizing way" is specifically proscribed. This paper brings out ways in which, even without dehumanization, standards of respect can be compromised. The paper is also consistent with the code in treating the demands of ethical marketing as incapable of being met by legal regulation alone.

If I have been right in identifying cases in which human images are perverted or represented in unethical ways, we have a case in which (as is common) ethical demands go beyond the legal requirements any free society may reasonably impose. In meeting these ethical demands, there are inevitably tradeoffs. For instance, how much sacrifice of profit does ethics require, if indeed it ever requires sacrifice in the long run? It would naïve to think there is any easy tradeoff in those cases where the ethical way of proceeding has some financial cost as against, say, deceptive advertising. Ultimately, good imaging should pay businesses well economically, but economic incentives should not be the only kind operative in the matter.

I do not claim to be able to prove that in marketing (or elsewhere in business) conducting business ethically will be economically beneficial in the long (there is no doubt that it need not be so in the short run). But I challenge leaders in marketing (or certain of them) to try harder to meet high ethical standards. In particular, I have noted kinds of marketing that represent women in ways that are misleading and even demeaning, that stereotype females or other categories of persons, including virile males, that misleadingly imply the normality and safety of long-term medications, that portray unnecessarily exploitive uses of the environment, and that employ and even promote modes of communication which unduly magnify fears, enhance stereotyping, and unwarrantedly simplify issues.

I offer no formula for a solution; but even to recognize these patterns and to reflect on them in the light of the ethical standards stressed here may lead to considerable progress. The matter is urgent, especially with the developing countries moving so fast toward frequent exposure to the media. There is a growing possibility that simplistic, even militaristic images of humanity will come to the fore in the developing nations even more than they already have in the developed ones. It is quite possible for marketing to represent human images in a way that presents something to live up to rather than something to which few if any would aspire given adequate knowledge of what that means.⁸

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Chapter 19

The Calvert Women's Principles: Catalyst for Promoting Gender Equity and Empowerment of Women in the Workplace



Regina Wentzel Wolfe

Abstract The marginalization of women in the global economy has been a long-standing concern of many and varied groups ranging from intergovernmental bodies such as the United Nations (UN) and World Bank to multinational enterprises (MNEs), trade unions, nongovernmental organizations (NGOs), and academic institutions. Work toward achieving gender equality is not new. The overarching goal is the achievement of full gender equity, though the approaches and foci of these institutions and groups in addressing the issue and barriers women face are wide ranging. This chapter examines some of the areas being addressed and provides a context for understanding the seriousness of the problem, which initiatives such as the Calvert Women's Principles (CWPs) and the Women's Empowerment Principles (WEPs) attempt to redress. These include the feminization of poverty, the gender wage gap, and barriers to women's career advancement.

Keywords Women · Marginalization · Calvert Women's Principles · Women's empowerment principles · United Nations · Gender equality · Empowerment of women in the workplace

Introduction

The marginalization of women in the global economy has been a long-standing concern of many and varied groups ranging from intergovernmental bodies such as the United Nations (UN) and World Bank to multinational enterprises (MNEs), trade unions, nongovernmental organizations (NGOs), and academic institutions. The overarching goal is the achievement of full gender equity, though the approaches

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and foci of these institutions and groups are wide ranging. According to recent data, there are 1.3 billion employed women around the globe (ILO 2019, p. 12). Given these numbers, the issue of gender equity in the workplace must be addressed.

Under the auspices of the Millennium Development Goals (MDGs), particularly goal three, intergovernmental bodies, NGOs and public sector organizations, as well as some private sector organizations, began more consistent and coordinated efforts to address gender equity issues. It was not until 2004, however, that the first comprehensive and systematic code of labor and human rights norms and standards affecting women targeted specifically to corporations was launched. At that time, in partnership with the United Nations Development Fund for Women (now UN Women), the Calvert Women's Principles were introduced in an effort to respond to the gender imbalance and barriers confronting women in the workplace.

Context

The issue of gender equity in the workplace is complex and wide ranging. Work toward achieving gender equity is not new. It has been a goal of many organizations for a significant number of years. Since its founding in 1919, the International Labor Organization (ILO) has actively promoted gender equality particularly as it relates to pay equity and gender discrimination. In 2013, it launched the Women at Work Centenary Initiative, a multi-year research project. One aspect of the research is the 2019 publication of *A Quantum Leap for Gender Equality*, marking a 100 years of ILO advocacy on behalf of working women. It acknowledges the advances women have achieved but notes that things have stalled. "The gender gaps with respect to key labour market indicators have not narrowed in any meaningful way for over 20 years" (p. 12).

The United Nations (UN) is another organization that from its beginning demonstrated its concern with issues of equality for women, establishing the Section on the Status of Women in 1946. Over the years, various departments and divisions of the UN addressed diverse issues that impact women's development and empowerment. In July 2010, as part of reform efforts, UN Women was established bringing together the resources and expertise of those UN divisions charged with addressing issues of gender equity. These included the International Research and Training Institute for the Advancement of Women (INSTRAW), the Office of the Special Adviser on Gender Issues and Advancement of Women (OSAGI), the United Nations Development Fund for Women (UNIFEM), and the Division for the Advancement of Women (DAW). The latter which had been part of the Department of Economic and Social Affairs and had primary responsibility for organizing the Fourth Conference on women held in Beijing in 1995 (UN Women n.d.).

In addition, there exists a plethora of nongovernmental organizations (NGOs), industry groups and private enterprises that also engage these issues with various degrees of seriousness and success. Recognition of the complexity of addressing gender equity in the workplace has grown, which in turn has led to more creative,

multifaceted responses bringing together individuals and organizations from public, private, and nongovernmental sectors.

Arguably one of the most important efforts in fostering greater gender equity in the last quarter century was the Beijing Declaration and Platform for Action (BPfA) adopted by the Fourth World Conference on Women held in 1995. In addition to introducing the principle of gender mainstreaming, the BPfA identified twelve areas of critical concern along with strategic goals for achieving gender equity in each of them. The critical areas include the following:

- The persistent and increasing burden of poverty on women
- Inequalities and inadequacies in and unequal access to education and training
- Inequalities and inadequacies in and unequal access to health care and related services
- Violence against women
- The effects of armed or other kinds of conflict on women, including those living under foreign occupation
- Inequality in economic structures and policies, in all forms of productive activities and in access to resources
- Inequality between men and women in the sharing of power and decision-making at all levels
- Insufficient mechanisms at all levels to promote the advancement of women
- Lack of respect for and inadequate promotion and protection of the human rights of women
- Stereotyping of women and inequality in women's access to and participation in all communication systems, especially in the media
- Gender inequalities in the management of natural resources and in the safeguarding of the environment
- Persistent discrimination against and violation of the rights of the girl child

(United Nations 1996)

While some of these areas do not necessarily directly affect gender equity and the empowerment of women in the workplace, for meaningful progress to be achieved the indirect impact and inter-relatedness of all of them must be recognized, something that the CWP and its successor initiatives have always done. Others, too, have grown to recognize the inter-relatedness of these areas; this fosters more comprehensive, multifaceted and, therefore, more effective responses.

As for the BPfA, a number of the strategic objectives presented in it continue to be of significance in the promotion of gender equity and the empowerment of women in the workplace, particularly Strategic objective G.1. that targets women's participation in political and economic life and their "equal access to and full participation in power structures and decision-making" (United Nations 1996, p. 122). The sense of hope and optimism that flowed from the Conference was heightened by expectations of progress not only with the approach of a new millennium but also the advancement of Goal 3 of the MDGs which reinforced the BPfA's call for gender equality and women's empowerment. Gender parity across all levels of

education was achieved before the 2015 deadline (United Nations 2015). Gender parity in other areas was not achieved and progress has not been as great or far reaching as had been expected. The World Economic Forum undertook a first attempt to quantify the gender gap in its 2005 report, “Women’s Empowerment: Measuring the Global Gender Gap.” The report noted that “it is a disturbing reality that no country has yet managed to eliminate the gender gap” (Lopez-Claros and Zahidi 2005, p. 1). This echoed the World Bank’s assessment of the BPfA published that same year: “Progress in improving women’s lives has been highly uneven across countries and regions, and there is no region where women and men enjoy full equality in social, economic, and legal rights” (2005, p. 12). A quarter of a century after Beijing, while some headway has been made, much work is still needed. The World Economic Forum *Global Gender Gap Report 2020* is clear: “At the present rate of change, it will take nearly a century to achieve parity, a timeline we simply cannot accept in today’s globalized world, especially among younger generations who hold increasingly progressive views of gender equality” (2020, p. 4).

Transforming our world: the 2030 Agenda for Sustainable Development, adopted by the UN in 2015, sets out a bold and ambitious plan for equality, peace and prosperity across the globe (2015). At its core are 17 Sustainable Development Goals (SDGs). Phumzile Mlambo-NGcuka, Under-Secretary-General and UN Women Executive Director, notes that in committing to the Agenda, member states of the UN “recognized that gender equality is central to this transformative vision as an important goal in itself and a catalyst for progress across the entire Agenda” (UN Women 2018, p. 3). The issues facing women today and the gender equality commitments found in the Agenda echo the twelve areas set forth in the BPfA, while the centrality Mlambo-NGcuka references makes clear the necessity for an integrated approach to gender equality if the SDGs are to be realized.

It is beyond the scope of this chapter to examine each of the areas, however, brief consideration of a few of them will provide a context for understanding the seriousness of the problem, which initiatives such as the CWP attempt to redress. These include the feminization of poverty, the gender wage gap, and barriers to women’s career advancement.

Feminization of Poverty

As Sara S. McLanahan and Erin Kelly note, “the term feminization of poverty focuses our attention on sex differences in poverty rates and the fact that they have grown in the last half-century. Feminization describes both the unequal state of men’s and women’s poverty rates and the processes by which women’s risk of poverty has increasingly exceeded that of men’s” (2006, p. 129). It should be noted the term “feminization of poverty” is not used as often today, in large measure as Chant notes, because it “has been critiqued on number of grounds. These include the doubtful original (yet surprisingly enduring) metric articulated back in 1995 at Beijing that women were 70 per cent of the world’s poor (and rising), that there has

been too narrow a concentration on incomes at the expense of other aspects of gendered disadvantage, and because the 'feminisation of poverty' construct has routinely linked mounting poverty among women with the 'feminisation' of household headship (see Chant 2008)" (2016, p. 2). That said, the various reasons suggested to explain the disparity in levels of poverty between men and women are still with us. These include claims that social welfare programs and benefits are inadequate, that women are ghettoized or concentrated in low paying professions, that family and social structures are the primary contributing factor, that women lack access to education, and that women are underrepresented in positions of leadership, particularly in the public policy arena.

The issue is not so much determining which of these claims best explains the feminization of poverty; rather it is understanding the complex web of issues and recognizing that there can be multiple contributing factors. Take the issue of paid maternity leave, for example. Public policies and legislation governing paid maternity leave vary widely. A recent OECD report of 41 countries found the only country that does not mandate some form of paid maternity leave is the United States. Mandated leave at full pay is found in 15 of the countries with the number of paid weeks of leave ranging from a high of 30 weeks in Croatia to a low of 12 weeks in Mexico. Rates of pay for mandated leave in the remaining countries in the survey range from a high of 94.2% of pay for 13 weeks in Norway to a low of 26.7% of pay for 26 weeks in Ireland. Arguably, Bulgaria has the most generous maternity leave policy at 90% of pay for 58.6 weeks of leave (2019, p. 3).

Looking at the rate at which women participate in wage employment provides another example of the multiplicity of contributing factors to women's poverty. In 2018, according to the ILO's centenary report, only 45.3% of women were employed. The report also debunks a common perception that "women do not want to work outside their home. Based on a representative global sample, about 70 per cent of the women interviewed said that they would prefer to be in paid work, and 66.5 per cent of men agreed that they should be" (2019, p. 12). The ILO findings also indicate that women who are employed "were more likely to be employed in occupations that are considered to be low-skilled and to face worse working conditions than men" (2019, p. 12). This echoes an Asian Development Bank (ADB) study of women in wage employment in Asia and the Pacific conducted more than a decade earlier. It found that "some distinct patterns can be seen in women's employment, related not only to the dominant social norms within countries, but also to larger economic and political forces influencing the structure of national economies. ... the lowest levels of women's participation in wage employment are in South Asia, where conservative social norms have historically limited most women's access to education and work outside the home" (2006, p. 15).

The ADB report also noted the existence throughout the region of "strong patterns of horizontal gender segregation in employment (with women concentrated in low-paying sectors, such as education and health), as well as vertical gender segregation (with most women in lower-level jobs or self-employed, and relatively few at management levels)" (2006, p. 17). The reasons for this segregation varied. In China, for example, "67% of urban employers specify the sex of new hires, some

refuse to hire women older than age 35, and others prohibit women from remaining employed if they become pregnant” (ADB 2006, p. 17). In Malaysia gender segregation in employment “is due in part to ‘gender tracking’ in the selection of courses at the tertiary level, and in part to the fact that working women are still primarily responsible for household and childcare duties” (ADB 2006, p. 17). These findings point to the historic difficulty of identifying one factor as the primary cause of the feminization of poverty, a difficulty that remains with us today.

Gender Wage Gap

Attempts to account for and to address the gender wage gap, that is the difference in earnings between men and women, are not new. In fact, as I have observed elsewhere (Wolfe 2001), they are long standing. As with feminization of poverty, the reasons put forth to account for the wage gap are varied. They include social traditions as related to marriage and family, access to education, degree of civil liberties, access to health care including reproductive health care, and property or ownership rights (Jütting et al. 2006). Other factors include “gender segregation in fields of study and jobs, women’s higher likelihood of interrupting their careers for caregiving, and – though harder to identify – discrimination and biases against women” (OECD 2017, p. 4). Of all of these, the only area where efforts have met with success is in education. “In 2014, gender parity was achieved globally, *on average*, in primary, lower secondary and upper secondary education” (UNESCO 2016, p. 262; emphasis added). While this is an important milestone, it is important to recognize there are still many significant challenges to be addressed, including in education where parity has been achieved “on average” and does not consider, among other things, the quality of the education received and/or the discipline studied. These as well as many other factors contribute to the ever present wage gap.

Also of concern are the methods and data used to determine the wage gap. Inconsistencies in this regard make it difficult not only to determine the exact size of the wage gap but also to compare data within a country and from one country or region to another. Consider the impact of differing types of earnings.

When it comes to measuring the size of the gender pay gap, the type of earnings used (hourly, weekly, monthly, or annual earnings) matters – a lot. Across the OECD women tend to work shorter hours than men, so estimates based on weekly, monthly or annual earnings – which reflect not only the wage rate paid, but also the number of hours an individual works per day, per week, and so on – tend to result in larger pay gaps than estimates based on hourly earnings. For example, on average across the 29 OECD countries with data available on the gaps in both median hourly and median monthly earnings, the gender gap for all employees based on monthly earnings (26.5%) is more than 13 percentage points larger than the gap for all employees based on hourly earnings (12.9%)... . In countries where women are especially likely to work short hours, like Australia, Austria, the Netherlands and Switzerland, the gap based on monthly earnings is more the 25 percentage points larger than the hourly gap. Especially for these countries, the hourly earnings pay gap may be a more appropriate measure as it disregards the differences in the number of hours worked in a given week, month or year.

One way to at least partially control for the effects of gender differences in working hours is to focus just on employees working full-time ... Yet, even though the difference between the median hourly and median monthly pay gap tends to be smaller when looking only at those working full-time, there is still a difference... On average across the 29 OECD countries with available data on both the monthly and hourly gender gaps, the gap in median monthly earnings just for full-time employees (18.6%) is still about 6 percentage points larger than the gap in median hourly earnings for full-time employees (12.5%) (OECD 2017, p. 156).

Comparisons of the gender wage gap can be further complicated if other indicators are factored in, for example level of education, work experience, seniority, age, or parental status among others. Consider age in OECD countries.

Gender differences in pay are generally larger among older workers than among their younger counterparts... On average across the 29 OECD countries with available data, the gender gap in median hourly earnings for full-time-employed 25–29 year-olds stands at about 7%, increasing to 13% for 35–39 year-olds, 14% for 45–49 year-olds, and 15% for 55–59 year-olds. In fact, in six of the 29 OECD countries with available data (Australia, Greece, Luxembourg, Switzerland, Turkey and the Netherlands), full-time-employed young women aged 25–29 are actually better paid than young men aged 25–29... In all six of these countries, these “negative” pay gaps disappear when looking at differences among the older age groups – for 55–59 year-olds, for example, all six countries see a pay gap in favour of men, with the gap in Australia as large as 27% and in Turkey as big as 34% (OECD 2017, p. 159).

These wide variations in methods aside, there is general agreement that the gender wage gap exists and must be addressed.

Barriers to Women's Career Advancement

One of the most persistent barriers women face is care-giving responsibilities. Across countries, the role of primary caregiver falls to women, whether it is care of children, parents, or other family members. Even if these responsibilities do not lead to a woman to move out of the workforce for a time, they do impact the amount of time she has available to devote to her job and career advancement. Other barriers common across the globe are hostile institutional cultures, gender bias in recruitment and promotion, and lack of flexible work solutions to name a few.

There is a recognized dearth of women at senior levels across sectors which is often explained by citing the glass ceiling which “refers to an invisible, systemic barrier that prevents women from rising to senior leadership” (Lean In 2019, p. 8). Of course, there are other ceilings and barriers as well. For example, there are “glass borders.” As globalization grows, corporations increasingly desire employees who have international experience, particularly employees who rise to senior managerial roles. Research shows that “eight out of ten people posted overseas are men ... [and that men are] promoted on their potential – and actively pursue opportunities overseas, while women are promoted on their performance – and are much less likely to put their name forward for promotion abroad” (Lamb 2013).

There are also barriers that are unique to a region or country. In the UK, for example, there is

“the class ceiling ... [where] earnings are higher for those whose parents were also in professional employment. The finding that income persistence between parents and children has increased is not just a matter of those from privileged backgrounds getting a greater share of top jobs. Even when those from working-class backgrounds get professional jobs, they are likely to earn less than their colleagues who started off in professional families” (Wolfe and Werhane 2017, p. 110).

In Japan, women face gender segregated career paths where “there is a managerial career track (*sogo shoku*) and a dead-end clerical track (*ippan shoku*). This track system is strongly associated with gender. Many women do not pursue *sogo shoku* jobs despite their greater opportunity for career development because they require regular overtime hours” (Yamaguchi 2019, p. 28). Given the culture’s emphasis on women as caregivers with responsibility for child and elder care, this is not surprising.

These and the many other barriers highlight the systemic nature of the difficulty of achieving gender parity in general and career advancement in particular. Efforts are being made to understand more fully these systemic barriers. One interesting finding is that “contrary to popular belief, the glass ceiling is not the biggest obstacle to women’s progression. It is actually at the first step up to manager—or the ‘broken rung’” (Lean In 2019, p. 8). According to the report, there are only 72 women to every 100 men promoted to or hired at first-level management positions. At each progressive management level, the disparity grows. One of the conclusions is that “even as hiring and promotion rates improve for women at senior levels, women as a whole can never catch up. There are simply too few women to advance” (Lean In 2019, p. 8).

This persistent problem is despite the strong business case that is repeatedly presented by intergovernmental organizations such as the UN, the World Bank, the ILO and the International Monetary Fund, by NGOs, such as Catalyst, Global Fund for Women, and Lean In, and by research and consulting groups, such as Grant Thornton International, McKinsey & Company, and Boston Consulting Group. A McKinsey Global Institute report details the strength of the case. “The research finds that, in a full-potential scenario in which women play an identical role in labor markets to men’s, as much as \$28 trillion, or 26 percent, could be added to global annual GDP in 2025” (Woetzel et al. 2015, p. 1). This is “roughly equivalent to the combined size of the economies of the United States and China today” (Woetzel et al. 2015, p. 2). Skeptics will think achieving a full-potential scenario across the globe is not possible. But even at regional levels there is a compelling case to be made. If all countries were to achieve a level of gender parity that matched that of the country with the best record in their respective regions, as much as \$12 trillion could be added to global GDP in 2025 (Woetzel et al. 2015, p. 3). All encompassing, strategic responses are required. As noted above, the Calvert Women’s Principles (CPWs) were among the earliest comprehensive responses.

Calvert Women's Principles

In June 2004, in partnership with the United Nations Development Fund for Women (now UN Women), the Calvert Women's Principles were introduced. They were, in part, driven by Barbara Krumsiek, at the time President and CEO of Calvert Investments Inc.,¹ who noted "the absence of a set of guidelines or a code of conduct for the treatment of women in the corporate workplace" (Calvert Investments 2014, p. 2). Seven core principles were set forth as follows:

1. Disclosure, Implementation and Monitoring

Corporations will promote and strive to attain gender equality in their operations and in their business and stakeholder relationships by adopting and implementing proactive policies that are publicly disclosed, monitored and enforced.

2. Employment and Income

Corporations will promote and strive to attain gender equality by adopting and implementing wage, income, hiring, promotion and other employment policies that eliminate gender discrimination in all its forms.

3. Health, Safety and Violence

Corporations will promote and strive to attain gender equality by adopting and implementing policies to secure the health, safety and well-being of women workers.

4. Civic and Community Engagement

Corporations will promote and strive to attain gender equality by adopting and implementing policies to help secure and protect the right of women to fully participate in civic life and to be free from all forms of discrimination and exploitation.

5. Management and Governance

Corporations will promote and strive to attain gender equality by adopting and implementing policies to ensure women's participation in corporate management and governance.

6. Education, Training and Professional Development

Corporations will promote and strive to attain gender equality by adopting and implementing education, training and professional development policies benefiting women.

¹In December 2016, Eaton Vance Corporation acquired Calvert Investments; the acquisition was made through Calvert Research and Management, a subsidiary of Eaton Vance (Eaton Vance Investment Managers 2016).

7. Business, Supply Chain and Marketing Practices

Corporations will promote and strive to attain gender equality by adopting and implementing proactive, non-discriminatory business, marketing and supply chain policies and practices. (Calvert Investments 2005, pp. 1–7)

A list of strategic actions accompanied each of the principles with the expectation that companies adopting the principles would make a good faith attempt to implement them. The principles and strategic actions were consistent with and supported the MDGs, the BPfA, and the Convention on the Elimination of All Forms of Discrimination Against Women adopted by the UN in 1979. While the CWP's could be interpreted as aspirational, there was a pragmatism to them. Calvert recognized some companies were better able than others to put the CWP's into practice, thus, expected actions for each principle were structured "in a way that generally proceeds from the more elemental to the more difficult [to] allow companies to determine where along the continuum they are most comfortable, [so] that they will then be induced to build upon their commitments and their successes over time" (Calvert Investments 2005, preamble). Such a structure provides the means by which a company's progress can be measured. The ability to have some means by which to assess progress is important, not simply because Calvert intended to use the CWP's in its own business decisions vis-à-vis investments for its various portfolios but also as a way to determine what, if any, progress was being made in moving toward gender equity.

Though launched in 2004, it took until 2007 for a company formally to adopt the CWP's. Leadership at Calvert recognized "not only that additional partners were necessary, but also that the best way to ensure the Principles' impact and reach was to give them to other entities who had the capacity to push them forward, while preserving an ongoing guidance role for Calvert" (Calvert Investments 2014, p. 6). The result were partnerships with the city of San Francisco and with the UN.

Calvert worked directly with the UN Global Compact (UNGC) giving them the principles. "The UNGC developed its own set of principles without corporate branding, in the hopes that it would spur broader adoption. The Women's Empowerment Principles, developed in collaboration with UN Women, were launched in March, 2010" (Calvert Investments 2014, p. 6).

Women's Empowerment Principles

A partnership between the UNGC and UN Women, the Women's Empowerment Principles (WEP's) continue to be directed to the private sector. Echoes of the CWP's are clear in the seven principles that were developed.

1. Establish high-level corporate leadership for gender equality.
2. Treat all women and men fairly at work – respect and support human rights and nondiscrimination.

3. Ensure the health, safety and well-being of all women and men workers.
4. Promote education, training and professional development for women.
5. Implement enterprise development, supply chain and marketing practices that empower women.
6. Promote equality through community initiatives and advocacy.
7. Measure and publicly report on progress to achieve gender equality. (UN Women 2011, cover)

The UNGC, UN Women, and other stakeholders continue to encourage businesses across the globe to join the WEPs network. Membership is restricted to companies, industry associations and chambers of commerce, further emphasizing the business and workplace focus of the principles. Since the network's inception 10 years ago, more than 2,000 companies have joined the WEPs community. Of those, more than 1,800 have used the Gender Gap Analysis Tool (WEPs Tool)² which was launched in 2017. The tool, designed in consultation with over 190 companies, is comprehensive and designed to encourage holistic rather than one-off approaches to addressing gender inequalities in the workplace.

A report analyzing aggregate findings from a sample of responses to the WEPs Tool was published in 2018. Performance scores are ranked across four stages: Beginner (0–25%), Improver (25–50%), Achiever (50–75%), and Leader (75–100%). The average score of those sampled was 26.6%, with 60% of the businesses at the beginner stage, 27% at the improver stage, 12% at the achiever stage, and 1% at the Leader stage. In considering the different categories, the top three scores were paid maternity leave in the workplace category (87%), commitment to gender equity in the leadership category (69%), and paid paternity leave, again in workplace category (65%) (UNGC 2018).

Conclusion

The efforts described above indicate that progress is being made, even if incrementally. This is supported by a recent Grant Thornton report which found that 2019 saw “the highest percentage of women in senior management on record, at 29%. This year also marks the biggest increase in the proportion of women in executive roles around the world, rising five percentage points from 24% in 2018, and making it the first time the proportion of women in senior leadership has exceeded one in four” (Grant Thornton 2019, p. 5).

There is also increased recognition that integrated, holistic approaches are needed to address gender equity, as well as other critical areas targeted by the SDGs. One example of this recognition is the Business Roundtable's rearticulation of its definition of corporate purpose. In 2019, the Roundtable, an association of CEOs of leading U.S. companies, dropped its original purpose statement which read: “the

²For more information on the WEPs Tool see <https://weps-gapanalysis.org>

principal objective of a business enterprise is to generate economic returns to its owners” (Business Roundtable 1997). Its revised statement is as follows: “While each of our individual companies serves its own corporate purpose, we share the fundamental commitment to all our stakeholders... We commit to deliver values to all of them, for the future success of our companies, our communities and our country” (Business Roundtable 2019; Gelles and Yaffe-Bellany 2019).

Lean In presents realistic and achievable solutions for addressing the broken rung barrier discussed above. These include: setting target goals for increasing the number of women in first-level management positions; requiring diverse slates of candidates for positions at all levels; providing unconscious bias training for those involved in all levels of performance reviews, not just senior levels; establishing clear and unbiased evaluation criteria and tools; and provide women with the training, support, and experience – including high-profile positions –needed to advance through management levels (Lean In 2019, pp.14–15).

Another hopeful sign is the early 2020 launch of the Target Gender Equality Programme. This year-long accelerator program provides opportunities “for companies participating in the United Nations Global Compact to deepen their implementation of the Women’s Empowerment Principles and to strengthen their contribution to Goal 5.5 of the 2030 Agenda for Sustainable Development supporting women’s equal representation and leadership across business at all levels” (UNGC 2020). One aspect of the program enables participating companies to do an assessment using the WEPs Tool. This is another way to increase and strengthen the WEPs network, which is viewed as “a primary vehicle for corporate delivery on gender equality dimensions of the 2030 agenda and the United Nations Sustainable Development Goals” (Women’s Empowerment Principles n.d.).

It is important to acknowledge the creativity and foresight of Barbara Krumsiek and others at Calvert who saw the need for the CWP and worked with the UNGC and others to develop them. They are still in use by Calvert and others. They have been revised and are presented in a much more holistic way. As they note in the latest report on the CWPs, they focus on responsible investing that goes beyond “financial analysis of a company to fully evaluate a company’s performance on a range of environmental, social, and governance factors. At Calvert, rather than identifying only a select set of ‘women’s issues,’ our investment process seeks to evaluate the interface of women and corporations more broadly, whether in the workplace, marketplace, or community” (Calvert Research and Management 2019, p. 3). It is also important to note that a great deal of progress that has been made, particularly through the Global Compact and WEPs, might not have occurred if Calvert had either not recognized the need for scalability or been unwilling to give the principles to the UNGC and UN Women to they could move them forward.

Women in the Workplace says it best. “This is a critical moment. We can treat diversity like the business imperative it is, or we can treat it as an optional initiative. We can build on the progress we’ve made, or we can lose momentum. We are optimistic. This year we’ve seen more bright spots than ever before. We know companies are committed. And the organizations that are doubling down on their diversity efforts are making real progress. We hope companies take this year’s report as a roadmap for change—and a call to action” (Lean In 2019, p. 56).

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Chapter 20

The United Nations Global Compact: What Did It Promise?



Oliver F. Williams

Abstract Many scholars have identified an important issue for the global economy: Providing some mechanism for requiring assurance that ESG information provided by a business is accurate and objective. Where some have gone wrong is in trying to change the mission of the United Nations Global Compact (UNGC). From its inception, the UNGC has been clear that its mission is not to provide such assurance. This article first outlines the background for the historic announcement of the UNGC by the then Secretary-General of the UN, Kofi Annan. Then a summary of the major criticisms of the initiative is provided with a focus on the Sethi-Schepers article. Finally, I argue that the mission of the UNGC, to gain consensus in the global community on the shared values and moral norms that will guide the global economy, is being accomplished, although it is a work in progress.

Keywords UN Global Compact · Shared values and moral norms · Voluntary initiative · Global governance · Nongovernmental organizations (NGOs)

The Context for the UNGC

In 2000, I published a book titled *Global Codes of Conduct: An Idea Whose Time Has Come*, which included essays by many of the major scholars in the area, as well as appendices with most of the major codes contending for the global ethic (Williams 2000). In my view, the crucial issue was gaining a consensus on the norms which

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should guide the global economy and the Caux Principles had the best chance of gaining legitimacy in the global business community, given that its formulation involved significant business leaders and also that it was an international endeavor from the start. All that changed when, in January 1999, the then Secretary-General of the United Nations, Kofi Annan, spoke to the World Economic Forum in Davos, Switzerland, about the need for a new Global Compact for business. One of the issues that emerged with the globalization of the economy is the lack of common agreement on the appropriate norms that should guide business, especially in developing countries. Is a multinational company responsible for human rights violations of its subcontractors? What are appropriate norms for guiding a company's environmental policy in a country where there is no legal framework, at least in practice? In the 1990s, with the huge expansion of the global economy and outsourcing into poor developing countries, there was much public attention and controversy around the issues of sweatshops and child labor. The focus of much of the public controversy was on Nike and whether the company had a responsibility for the inhumane practices of its subcontractors. Nike, at first, claimed no responsibility for the conduct of its suppliers and contractors since these were independent and not owned by the multinational. After a consumer boycott, Nike later changed its position, formulated a code of conduct for suppliers, and became a model employer (Zadek 2004). For purposes of this study, the important point to note is that, because of the Nike case and other similar ones, there was a growing concern about globalization in the late 1990s.

Globalization is perceived as being both a threat and a promise. The promise is seen in the rising prosperity experienced by many in rich and poor countries alike in the aftermath of international linkages (Chandy and Gertz 2011). The threat is the growing perception, by nations and by individuals, that no longer can we control our way of life. Whether it is corporate downsizing, take-overs, rapid withdrawal of finances, bankruptcies, human rights abuses, or the loss of jobs, the pace of change and the disruption of communities is very troubling to many. Joseph Schumpeter's "Creative Destruction," described so well in his 1940 work, *Capitalism, Socialism and Democracy*, is a double-edged sword that cries out for a human resolution (Schumpeter 1942).

Business, as one of the major institutions of society, was in the forefront of this challenge. In the late 1990s, there was a growing call for global ethics. From various parts of the world, proposals were emerging for a new global code of conduct. For example the Caux Round Table Principles are largely the work of Japanese, European, and U.S. business leaders (Williams 2000; Cavanagh 2000; Goodpaster 2000). The CERES Principles are an attempt to protect the worldwide environment (Massie 2000). There is an ever-increasing concern that human rights in developing countries be promoted and protected, highlighted in the code for apparel industry, the US White House Apparel Industry Code of Conduct (Apparel Industry... 1997). In South Africa, there were the famous Sullivan Principles (Sethi and Williams 2002) and in Northern Ireland there were the Macbride Principles (McManus 1997).

The basic premise is that good ethics means good business. Business needs predictability in order to thrive and moral norms ensure that predictability has a chance. A global ethic is a requirement of our new situation of the shrinking borders of our world, compressing peoples, cultures, and economies. Technology and the internet has hastened the arrival of our global village and the challenge to fashion a humane village is one that remains for our time. The nature of globalization is such that the role of the firm was being redefined as well as the role of national and global institutions. The challenge requires that business define its ethical responsibility with global standards just as it defines product, production and employee standards.

In the 1990s there were anti-corruption codes put forward by the major international governmental and nongovernmental organizations. The Organization for Economic Cooperation and Development (OECD), the Organization of American States (OAS), the European Union (EU), the World Trade Organization (WTO), the World Bank, the United Nations Commission on Transnational Corporations (UNCTC), the International Chamber of Commerce, and Transparency International (TI) are all international instruments working effectively to combat corruption. Significant progress has been made and many are optimistic.¹

For most business leaders, the global ethic that held the most promise, largely because it was formulated by the business community, was Caux Round Table's Principles for Business. In 1986, a group of senior business executives from Japan, Europe, and North America began meeting annually in Caux, Switzerland to discuss measures to lessen trade tensions. These discussions led to further meetings about ethical issues and, finally, in 1994, to the adoption of the Caux Principles for Business. Many are champions of the Caux Principles, not only because they are a set of ethical standards that hold across cultures, but also because they are advocated and advanced by business leaders themselves, rather than NGO's or others. The Principles address the responsibilities of managers and companies from a stakeholder perspective and include all the elements that a company may want to include in its own code of conduct. Slowly, but surely, a global ethic was catching on in the business community. This surely was an idea whose time had come.

In the late 1990s, many followers of the world scene were convinced that the globalized world needed to gain consensus on new forms of global governance. The regulatory authority of the nation state was eroded with the growing power of multinational business. Applying international or national law to companies operating in dozens of countries had little prospect for success. In fact, as evidenced in the Nike case, global governance was often facilitated by civil society actors bringing moral pressure on business. And as we saw with the Caux Principles, business was partnering with NGOs and academics to formulate global norms for its operations. Business was taking on the character of a political actor, not only in formulating new rules of conduct for itself, but also in accepting new responsibilities, for example, in protecting workers' rights; participating in the fight over HIV/AIDS;

¹ Transparency International (TI) is one of the best resources for information on the struggle against corruption: www.transparency.org.

and advancing education in poor areas. Yet, the lingering problem remained that for every Nike that transformed itself from an amoral company to a leading light, there were hundreds of companies that were unaware of or unconcerned about their responsibilities in the area of human rights, as well as the social and environmental issues in developing countries.

The Proposal of the United Nations

Suddenly, an answer appeared on the scene as to how we would gain a consensus on the moral norms that would guide the global economy. On January 31, 1999, the then Secretary-General of the United Nations, Kofi Annan, gave an address to the World Economic Forum (WEF) in Davos, Switzerland, which outlined the challenge and the promise of what has become known as the United Nations Global Compact (UNGC). His basic insight was that national economies have always assumed certain norms or moral values, some codified in law, but many that are not, and now that we have moved to a global economy, we must find a way to embed moral norms in the globalized situation.

National markets are held together by shared values. In the face of economic transition and insecurity, people know that if the worst comes to the worst, they can rely on the expectation that certain minimum standards will prevail. But in the global market, people do not yet have that confidence. Until they do have it, the global economy will be fragile and vulnerable—vulnerable to backlash from all the “isms” of our post-cold-war world: protectionism: populism: nationalism: ethnic chauvinism: fanaticism: and terrorism (Annan 1999).

Annan suggested that the UN “facilitate a dialogue” so that the universal values in the areas of human rights, labor standards, and environmental practices (and later anti-corruption initiatives) might become embedded in the global market. Since we do not have a global state to formulate the norms and conventions for a global economy, the UNGC would be a platform where companies and various stakeholders would, through debate and discussion, come to some minimal agreement on global norms and practices.

The basic proposal of Annan, that business and the United Nations join together to promulgate a “global compact of shared values and principles, to give a human face to the global market,” was met with widespread approval in the business community (Tester and Kell 2000). When the Secretary-General, in 2000, first promulgated the Global Compact, he had a clear vision of the problem, but only a broad outline of the solution. The problem was that globalization of markets, while it created vast amounts of new wealth, did not distribute this new wealth very well. Millions of people in India and China were lifted out of poverty, but many people in the world were victims, rather than beneficiaries, of this new engine of wealth creation. Whether it be blue collar workers who lost lucrative jobs on auto assembly lines in Detroit; populations of major cities in China that lost clean air to breathe; or poor peasants who were subjected to sweatshop conditions in Asia and Latin

America, increasing discontent was in the air. In former times of great economic volatility, nation states took measures that restored social harmony and political stability.

For example, the Great Depression of some 75 years ago was the birthplace of the social safety net, evolving into such programs as social security, medical benefits, unemployment insurance, food stamps, and so on. The problems today are global in scope and even where nation-states might be willing or able to regulate, they are reluctant to do so for fear of losing new investment to nations with less stringent regulations. The race to the bottom is a fact of life in developing countries.

Kofi Annan saw clearly that if globalization and its ability to create massive wealth was to continue, there must be a set of ideals which would guide business and insure that the legitimate concerns of all, especially the least advantaged, were not neglected. This set of ideals, what has become known as the Global Compact, consists of ten principles. As of 1 November 2021, there were over 14,000 business participants and 3,000 civil society signatories.

The ten principles of the Global Compact focus on human rights, labor rights, concern for the environment, and corruption and are taken directly from commitments made by governments through the UN: the Universal Declaration of Human Rights (1948); the Rio Declaration on Environment and Development (1992); the International Labor Organization's Fundamental Principles and Rights at Work (1998); and the UN Convention Against Corruption (2003).² In addition to making the principles an integral part of the business strategy and corporate culture, a company is asked to engage in partnerships to advance broader UN development goals as, for example, the Sustainable Development Goals of the UN.³

The Global Compact was designed as a voluntary initiative. A company subscribing to the Principles is invited to make a clear statement of support and must include some references in its annual report or other public documents on the progress it is making on internalizing the principles within its operations. This Communication on Progress (COP) must also be submitted to be posted on the Global Compact website.⁴ Failure to submit a COP within one year of becoming a signatory to the company (and subsequently every year) will result in being delisted. As of November 2021, over 13,000 companies have been removed from the list of participants for failure to communicate progress.

Scholars have suggested that corporate responsibility initiatives may be categorized as one of four different types: principle-based initiatives, certification initiatives, reporting initiatives, and process-based initiatives (Rasche et al. 2012).

²The UNGC has provided a Global Compact Self-Assessment Tool with 45 questions. The tool enables any company to evaluate whether the ten principles are anchored in the company strategy and to assess the company's performance in the four areas of human rights, labor, environmental issues, and anti-corruption concerns. See: www.globalcompactselfassessment.org

³The Millennium Development Goals had a target date at 2015, at which time they were replaced by a more comprehensive agenda called The Sustainable Development Goals. See www.sustainabledevelopment.un.org.

⁴See the UN Global Compact Communication on Progress: www.unglobalcompact.org/COP/

Certification initiates, for example, Social Accountability 8000⁵ have auditing and verification procedures. Reporting initiatives are best represented by the Global Reporting Initiative (GRI), a series of some 70 suggested questions, to assist in preparing a sustainability report about the ESG issues.⁶ Process-based initiatives are best represented by the ISO 26000, an outline of a process to enable businesses to integrate CSR into the business plan.⁷ Principle-based initiatives are best represented by the Caux Principles, the UN Global Compact, and the Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises. Principle-based initiatives are a set of ideals, general in nature, that members of an organization are expected to follow; these norms have no explicit enforcement mechanism. I find the UN Global Compact, a self-declared principle-based initiative, the one that is most likely to succeed in garnering the global consensus required to establish the legitimacy of the norms. The UN has already established itself as legitimate in the eyes of many in the global community and the universal norms of the Global Compact are at the heart of the UN, having been based on UN documents.

The unique mission of the compact is to foster the growth of humane values in the *global* society, a challenge heretofore managed by nation-states for their own domestic situation. To advance the 10 principles, the Global Compact has established over 80 country and regional networks where dialogue, learning, and projects are carried forward in a local context and norms for the local situation can emerge. Kofi Annan, former Secretary-General, expressed it well: “Let us choose to unite power of markets within the authority of universal ideals. Let us choose to reconcile the creative forces of private entrepreneurship with the needs of the disadvantaged and the requirements of future generations.” As indicated above, I am convinced that the UN Global Compact is the best initiative that can meet the major challenge posed by globalization: developing a consensus on global ethical norms. The United Nations with its visibility, global reach, universality, neutrality, and convening power is considered legitimate in our world today and with the local networks of the UNGC operating almost everywhere, there are channels of communication readily available. Through the process of persuasion, discussion and arguing about practices, for example, sweatshops, the norms and values that enable global governance are internalized; major players are “socialized” and the voluntary compliance of the UNGC shapes the new CSR agenda (Palazzo and Scherer 2006; Rieth et al. 2007). There is a growing recognition that the CSR agenda of the UNGC is a legitimate one; as a visiting professor in Asia for the 2012-13 academic year, I have been especially impressed by many of the Global Compact members in China where there is a relatively new UNGC local network, and where the CSR agenda has taken hold.

⁵Social Accountability 8000 is a social certification standard designed in 1997 to assist businesses in implementing human rights standards in the workplace. See www.sa-intl.org/

⁶The Global Compact suggests that signatories use the GRI framework and relevant questions for their COPs. See www.globalreporting.org/

⁷ISO 26000 provides a business with a framework for responsible behavior and action. It is not a set of standards. See www.iso.org/iso/discovering_iso_26000.pdf

The normative worth of the UN, specifically the universal values embodied in the ten principles of the UNCD, is widely accepted in Asia.

The Global Compact China Network, with over 300 companies, consists of Chinese state-owned companies, private companies and multinationals in China. At a 2011 meeting, “Pen Guagang, Director General of the Research Bureau of the Chinese State Assets Supervision and Administration Commission of the State Council (SASAC) expressed emphasis on corporate responsibility among its member companies and its support of the Global Compact. The Global Compact China Network will facilitate the communication and collaboration between Chinese and foreign companies, helping Chinese companies to make a greater contribution to the UN MDGs. I sincerely wish that the Global Compact China Network will play a greater role to enhance corporate social responsibility and international collaboration.”⁸

Critics of the Global Compact

From the start, there have been some critics of the UNGC (Nason 2008; Slob and Kell 2008).⁹ One important set of critics is simply not convinced that economic globalization is a good idea. Another group of critics is within the UN itself and fears that business may become too influential in the United Nations. A third group believes that without some required certification process that companies are walking the talk, business will use the UNGC as a cover story, “bluewash” as it is called (powder blue is the UN color). This, of course, is the Sethi-Scheper’s position. Each group will be considered.

An important group of critics does not believe that economic globalization, as it is presently conceived, will ever bring authentic development to the poor, even if the principles of the compact were implemented.¹⁰ Accountability for this sort of critic would involve carefully assessing whether the poor and developing nations are indeed better off with economic globalization. They are angry that Kofi Annan, with his Global Compact and its voluntary nature, has assumed the answer. In the final analysis, this school of thought sees the only answer to the plight of the poor as a radical change, “a binding legal framework for the transnational behavior of business in the human rights, environmental and labor realms.”

A 20 July 2000 letter from prominent scholars and NGO leaders to UN Secretary-General Kofi Annan summarizes this objection.

⁸China has become an important partner in the UNGC. See “Global Compact Relaunches China Network,” www.unglobalcompact.org/news/172-11-28-2011

⁹See the blog “Global Compact Critics,” <http://globalcompactcritics.blogspot> and CorpWatch, www.corpwatch.org/

¹⁰This paragraph and the next five closely follow an earlier article of mine: The UN Global Compact: The Challenge and the Promise,” *Business Ethics Quarterly* 14, no. 4 (2004): 759–61.

We recognize that corporate-driven globalization has significant support among governments and business. However, that support is far from universal. Your support for this ideology, as official UN policy, has the effect of delegitimizing the work and aspirations of those sectors that believe that an unregulated market is incompatible with equity and environmental sustainability...Many do not agree with the assumption of the Global Compact that globalization in its current form can be made sustainable and equitable, even if accompanied by the implementation of standards for human rights, labor, and the environment...We are well aware that many corporations would like nothing better than to wrap themselves in the flag of the United Nations in order to “bluewash” their public image, while at the same time avoiding significant changes to their behavior...Without monitoring, the public will be no better able to assess the behavior, as opposed to the rhetoric, of corporations.¹¹

It is well beyond the bounds of this study to make some final judgment on the merits of the contemporary practice of economic globalization, but I do submit that there is a convergence in the vision of the globalization critics and the compact. Both are trying to retrieve the notion that there is a moral purpose of business and not only in wealth creation but also in its distribution.

One way to view the compact is as an attempt to create the moral underpinnings of the global economy that were assumed by Adam Smith for a national economy. In *An Inquiry Into the Nature and Causes of the Wealth of Nations* (*The Wealth of Nations*), Smith sought to understand why some nations were wealthier than others. Part of his answer was that nations that encouraged free competitive markets were wealthier. In a curious kind of way, in the context of the economy, when *each person pursues his or her self-interest the common good is enhanced* and all are wealthier. Given competition, the baker bakes the very best bread possible and sells it at the lowest price feasible so that he will have the resources to buy what he wants. Although motivated by self-interest, the result is that the community has good bread at a reasonable cost. Thus, Smith showed how economic self-interest was beneficial for the community (Smith 1804).

In my view, however, the crucial point in Smith’s analysis is his assumption in *The Wealth of Nations* that is quite explicit in his *The Theory of Moral Sentiments*: The “self-interest” of business people would be shaped by moral forces in the community so that self-interest would not always degenerate into greed and selfishness (Smith 1790). Wealth creation enabled and sustained a humane community when it was practiced by virtuous people.

My argument is that Smith assumed that an acquisitive economy existed in the context of a moral community that would ensure that single-minded focus on making money would not persist (Werhane 2000; Williams 1993).¹² Yet it is precisely

¹¹ Letter to Kofi Annan, Secretary-General, United Nations, 20 July 2000, from Upendra Baxi, Professor of Law, University of Warwick, UK, and others. Available at CorpWatch, www.corp-watch.org/

¹² The 1991 encyclical letter of Pope John Paul II, *Centesimus Annus*, makes this central point: “The economy in fact is only one aspect and one dimension of the whole of human activity. If economic life is absolutized, if the production and consumption of goods become the center of social life and society’s only value, not subject to any other value, the reason is to be found not so much in the economic system itself as in the fact that the entire socio-cultural system, by ignoring

this challenge of fostering the growth of humane values in the *global* society, a challenge heretofore managed by nation states for their own domestic situation, that marks the unique mission of the Global Compact. The argument made by Global Compact officials is that unless the moral purpose of business is retrieved, economic globalization is doomed to failure. This is the basic business case for the UNGC and its role in the creation of norms.

It is precisely because a backlash to globalization would represent a historically unmatched threat to economic prosperity and peace that the Global Compact urges international business leaders to take reasonable steps to secure the emerging values of global civil society in exchange for a commitment on the part of the United Nations to market openness (Tester and Kell 2000).

Globalization critics see little value in the compact unless “the emerging values of global civil society” are somehow mandated by a worldwide legal framework. The compact, seeing little prospect for worldwide legal statutes, advances a vision of the moral purpose of business that relies on transparency and the interest companies have in maintaining their good reputation as the ultimate sanction.

It may be helpful to pursue further the argument of those critics who see the only answer as a worldwide legal framework (hard law), rather than a set of voluntary principles (soft law). Hard law is understood as binding and enforceable, while soft law is legally non-binding. Typically, soft law appears in the form of guidelines, resolutions, or principles. The Global Compact is considered soft law, but like most soft law, there are penalties for joining the UNGC and then not complying, for example, by not submitting a Communication on Progress (COP). As indicated earlier, over 13,000 businesses have been expelled (delisted) for not complying, that is, not submitting the required COP.

Scholars have noted that hard law seldom just appears on the scene, but rather has a history and usually follows when norms, soft laws, and customs that are thought to be important by society are flagrantly violated (Yang 2012; Pitts et al. 2009). For example, the U.S. Foreign Corrupt Practices Act (FCPA) passed in 1976 by the Congress outlawed bribery of foreign government officials and other corrupt practices in business after the public was outraged by a huge bribe that Lockheed paid to Japanese officials to obtain a large order of aircraft. There long had been a custom, a norm, and a soft law in the industry against bribery, but it took egregious violation of soft law to energize the evolution to hard law. The FCPA is an unusual case because it was one of the major drivers of global soft law on bribery, the 1997 OECD Convention on Anti-Bribery. This soft law, in turn, influenced the U.S. to amend the FCPA to include the new features found in the OECD Convention, resulting in the 1998 International Anti-Bribery Act (soft law becoming hard law).

There are a number of examples where it becomes clear that soft law cannot achieve the desired results and thus society influences the governing body to move

the ethical and religious diminution, has been weakened, and ends by limiting itself to the production of good and services along.” John Paul II, *Centesimus Annus* (Washington, DC: The US Catholic Conference, 1991), 77.

to hard law with sanctions. This is clear in the U.S. Sarbanes Oxley legislation which requires that companies keep detailed records supporting their financial statements and has severe penalties for senior officers when financial statements are found fraudulent. Before Enron and WorldCom this was standard practice (soft law), now it is standard practice with tough enforceable sanctions (hard law).

All this discussion on hard and soft law is by way of noting that in much of the world there have not been norms, customs, and soft laws that guide business. A significant value of the UN Global Compact is to highlight the normative dimension, the universal values of the UN Global Compact is to highlight the normative dimension, the universal values of the UN, and bring them into the strategic plan of a business. Once we have a firm consensus on the soft law required for the global business community, then the possibility of evolving into hard law becomes a reality. Whether hard law is better than soft law in the area of CSR is, of course, a matter of great debate and that debate will be part of any future agenda.

A second group of critics of the UNGC is within the UN itself, but here Sethi and Schepers are out of date in claiming that the UNGC lacks support in the UN itself. Historically, the UN did not have a close relationship with the private sector and in the 1960s this was amplified as many developing countries moved away from their colonial masters and became independent. The UN served as a countervailing power for developing countries who understood multinational companies to be part of the problem of muted economic and human development and certainly not the solution. All this began to change in the 1990s and was accelerated with the election of Kofi Annan as secretary general. There were a number of moves to enhance cooperation between UN institutions and the business world.

Georg Kell, the executive director of the UNGC from its founding in 2000 until he retired in 2015, wrote an insightful piece on the history and development of the project (Kell 2012). As indicated in the 20 July 2000 letter cited above, some NGO and academic leaders strongly disagreed that globalization could be rendered more helpful to the poor and many in the UN were opposed to Kofi Annan taking a strong stand for the Global Compact. In the face of some opposition within the UN, Annan courageously decided to make a plea for a closer relationship between business and the UN at his January 1999 address before the World Economic Forum at Davos. Business leaders were enthusiastic about closer cooperation with the UN, not only because the UN supported public goods essential for world trade (e.g., security, monetary rules and infrastructure improvement), but perhaps, more importantly, because the UN has a consensus on human rights and the implications for labor, the environment, and corruption. It is important to note that when Annan officially launched the Global Compact in 2000, it did not have a mandate from the Member States of the General Assembly. Only in 2007 did the General Assembly officially allow the Global Compact to be called the UN Global Compact, signaling that the pet project of the secretary-general was now a UN project.

The challenge in the early years of the compact was to get enough UN employees up to speed on how to work with business. If business was to take action to advance UN goals, a tenet of the UNGC, UN personnel had to have the knowledge and skills

to facilitate this task. An interagency working group was formed in the UN to have developed personnel in the various UN agencies and has been relatively successful.

While no one would claim that all UN officials are today passionate advocates of the UNGC, Kell argues that many who were skeptics early in the game are now “strong supporters.” The Sethi-Schepers article does not reflect this change. With the election of Ban Ki-moon as Secretary-General in 2006, the UN had a talented leader who believed in the future of UN-business partnerships and the importance of the UNGC. One major challenge that remains for the UN leadership is to ensure that the principles of the Global Compact are embedded in the UN itself: Does it practice what it preaches? This too is a work in progress now under the leadership of Secretary-General Antonio Guterres, first elected in 2017 and reelected for a second term in 2021.

Sethi and Schepers represent the third group of critics. They want to change the mission of the UNGC and focus on the fact that a company reporting annually on its progress in advancing the ten principles of the UNGC, in what is called its COP report, is not required to have the report certified or audited. They continue to call for some performance “seeking assurance as to the accuracy and objectivity of the information” (Sethi and Schepers 2014). Compact officials respond that this criticism misses the point. “The Global Compact is not designed as a code of conduct” (Slob and Kell 2008); rather, “it is a means to serve as a (frame) of reference to stimulate best practices and to bring about convergence around universally shared values.” At this stage, the goal is to gain consensus on the moral purpose of business and to include the substance of the principles as a part of business strategy and operations. Since companies will include a discussion of their compact-related activities in their annual reports, the power of public transparency and the watchdog role of the media and NGOs serve as an accountability structure. What compact advocates have in mind is that when actual business practice falls short of ethical standards, public criticism is a good corrective. For example, Lynn Sharp Paine, in an insightful study of the merging of social and financial imperatives, discusses how Royal Dutch/Shell made a major change in policy and practice after strident criticism of its activities in Nigeria (Paine 2003). Although Shell has had serious problems in 2004 with top management overstating oil reserves, the company is still considered by many to be a leader in promoting and protecting the rights of workers and communities. Yet, even with this role of the press and activist groups, while the compact is a noble endeavor, unless the participating companies are involved in some sort of independent monitoring and verification system, some corporate critics may never acknowledge its legitimacy.

Of course, one premise of the compact is that there will always be NGOs, activists, social investors and others who will be on the scene to pressure firms and the Global Compact to be better corporate citizens. There is a growing realization that NGOs or organizations of civil society play an important role in such a dialogue, for their focus is properly the common good—the culture of civility, health, environmental protection, and so on. This is certainly not to say that NGOs are always above reproach, for they, too, need accountability structures. In economic terms,

NGOs focus on overcoming the negative externalities of business. Contrary to Sethi and Schepers, I have found that major NGOs, including Amnesty International, Human Rights First, The Nature Conservancy, Global Witness, and Transparency International, are participating in the deliberations of the compact. The International Confederation of Free Trade Unions, Business Associations, and Academic and Public Policy Institutions have joined the compact and are active participants.

In my view, an outstanding NGO, which has as its mission what Sethi and Schepers would like the UNGC to do, is the Business and Human Rights Resource Centre.¹³ This NGO has a weekly newsletter and tracks “the positive and negative impacts” of over 5,100 companies in 180 countries. “We expose reality in a field too often dominated by rhetoric, and help protect vulnerable people and communities against abuses.” Companies can respond to any criticism of their practices and discuss corrective action where necessary. The Centre is playing a crucial role in the development of a more just global economy, but it is not the same role as the UNGC has charted for itself.

What May Be Called Progress? A Growing Consensus on the Moral Values in Global Business!

On the opening page of the Sethi-Schepers article, the authors pose the issue that is at the heart of our differences: “what may be called progress.” I take it that for Sethi-Schepers, “progress” would mean having “an independent external monitoring and compliance verification system,” “seeking assurance as to the accuracy and objectivity of information that is being voluntarily provided by the signatory companies as to their adherence to the UNGC principles.” To be sure, this would avoid “free riders” and some companies have decided to undertake such a comprehensive verification system to meet the concerns of their particular market. But make no mistake about it, this is not the mission of the Global Compact. In the words of Kofi Annon in his 1999 address to the WEF, the UNGC is founded on gaining a consensus on the shared values that will underpin a dynamic global economy. As Georg Kell put it in his debate with Bart Slob, the UNGC is trying “to bring about convergence around universally shared values.”

If I do not believe an independent external monitoring and compliance system is “progress,” what do I see as “progress?” In brief, progress for me is the growing consensus in the global community on shared values or moral norms. Although I am based at the University of Notre Dame and direct a Center for Ethics and Religious

¹³Published in English and Spanish, the *Weekly Update* of the Business and Human Rights Resource Centre has sections on International issues, Africa, Americas, Asia and Pacific, Europe and Central Asia, and the Middle East and North Africa. It also has a weekly section on “Recent company responses and non-responses” to allegations made about companies’ ESG performance. (www.updates@lists.business-humanrights.org).

Values in Business at the Notre Dame Mendoza College of Business, I also have a visiting position at the University of Stellenbosch (South Africa) and, for the 2012-13 academic year, served as a visiting scholar at Kyung Hee University in Korea. From my observations and many discussions with business leaders in Africa and Asia, it is clear that the fuzzy area of moral norms for global business is developing, and leaders, as well as the citizenry, are becoming aware of what is right and what is wrong in business practice. For example, compare the response time to the allegation of sweatshop conditions of subcontractors of Nike in the 1980s with the response time of Apple in 2012. When Nike was first criticized in the 1970s for the mistreatment of workers who make its athletic shoes, the response by Nike was that it did not own the companies manufacturing the shoes and it would not accept any responsibility for the mistreatment. Nike officials believed there was no moral norm which obliged the company to protect offended workers. After almost twenty years of struggle, there is now a moral norm widely accepted that obliges companies to take responsibility for the behavior of their subcontractors. This was quite evident when, in 2012, Apple was severely criticized for the treatment of workers by its contract supplier in China, Foxconn Technology Group. Apple's top management knew the company had violated a moral norm and, immediately, Apple CEO, Tim Cook, visited a Foxconn plant in China and pressed the contract manufacturing group to protect and advance the human rights of its workers by correcting unsafe working conditions; paying a decent wage; avoiding forced labor; and correcting overcrowded dormitories (better late than never). I am certainly not congratulating Apple, for they only acted when the press exposed the situation. The point I am making is that there is progress in the development of moral norms for global business and that this progress comes through vigorous debate and often a struggle. Apple knew there was a moral norm here and never questioned its legitimacy (Duhigg and Greenhouse 2012).

Progress for me is also evident in the UNGC program funded by the Siemens Integrity Initiative, which is based on promoting collective action to embed a moral norm against bribery in areas where such a norm is not present. Coordinated by the UNGC Principles for Responsible Management Education (PRME), teams developed academic modules for graduate business education to address transparency, ethics, and anti-corruption. With a \$2.87 million grant, five projects in areas where bribery is thought to be a problem (Egypt, India, Brazil, Nigeria, and South Africa) were initiated.¹⁴ The projects were premised on the assumption that, through collective action, a moral norm reflecting that harmfulness of bribery can be established. David Vogel, a scholar who has many misgivings about the voluntary nature of CSR, does however understand what the UNGC sees as its mission: "...the UN Global Compact's broad membership suggests that business norms regarding social responsibility are taking root beyond just the United States and Europe. Some firms

¹⁴"Sensitizing Future Business Leaders: Developing Anti-Corruption Guidelines for Curriculum Change," www.wiemens.com/sustainability/en/core-topics/collective-action/integrity-initiative/

in South Africa, Brazil, Mexico, Malaysia, and Costa Rica, among others, have begun to develop their own CSR programs” (Vogel 2005).

Sethi and Schepers continue to claim that they find no evidence that CSR is being advanced and that statements from UNGC officials are more like cheerleading than constructive criticism: “...all credible and publicly available data and documentation conclusively demonstrate that the UNGC has failed to induce its signatory companies to enhance their CSR efforts and integrate the ten principles in their policies and operations.” While it is true that you will not find “assurance” that individual company reports are accurate and objective on the UNGC website, as this is not part of the mission, you will find the *Annual Global Compact Implementation Survey*, which assesses how and to what extent signatory companies are engaging with the ten principles and the Millennium/Sustainable Development Goals.¹⁵

The survey is conducted by MBA and doctoral students from the Wharton School of the University of Pennsylvania. The largest survey of CSR practices, in 2011 over 1300 companies from 100 countries participated. Results included that 63 percent of the companies stressed supplier adherence to sustainability principles; smaller companies showed gains in key areas such as human rights and anti-corruption. Seventy-five percent of the companies are involved in projects to advance UN goals; and a majority of companies indicated involvement in partnership projects. Significantly, the report notes that action on the human rights principles “continues to lag behind” the action on the other three areas. Encouraging suppliers to participate in the global norms is a priority, but the report notes that “while 63 percent of respondents say their companies consider supplier adherence to sustainability principles, most are only taking limited action to support and incentivize such adherence.” The report is quite lengthy and detailed; the purpose of the discussion here is simply to provide a flavor of its contents. In accord with its mission to develop global norms, the report is not concerned with individual companies, but with the aggregate behavior. Similar results are found in more recent reports, for example, the annual United Nations Global Progress Reports which are available on Google.

Another point made by Sethi and Schepers is that companies gain great prestige by joining the UNGC: “It promised the companies all the prestige of the UN for the simple act of becoming a signatory with a vague promise to embed the ten UNGC principles in their operations.” If there is so much prestige in being a member of the UNGC, why did over 14,000 companies fail “to generate the puny amount of information that would satisfy the UNGC’s standards for COP?” Obviously, many companies do not believe this so-called prestige is worth much!

¹⁵ *Annual Review of Business Policies and Actions to Advance Sustainability: 2011 Global Compact Implementation Survey*. See also the *United Nations Global Compact Annual Review 2010*, www.unglobalcompact.org/. There are over 3,000 examples of business advancing the MDGs. See *Delivering Results: Moving Toward Scale: Accelerating Progress Toward the Millennium Development Goals* www.unglobalcompact.org/

The most troubling assertion by Sethi and Schepers is that there is a “loss of public trust and support of UNGC from important constituencies among civil society organizations, and those individuals and groups adversely impacted by corporate activities and resultant negative externalities.” To be sure, some individuals and groups were opposed to the UNGC from its inception in 2000. There are, however, numerous partnership projects to advance UN goals with companies and civil society organizations. The 2011 Global Compact Implementation Survey reports that the majority of companies are involved in such partnerships: 78 percent with NGOs; 65 percent with other companies; 58 percent with academia; 34 percent with the UN; and 33 percent with other multilateral organizations. More data from Sethi and Schepers on their assertion would be helpful.

Is the UN Global Compact the Final Answer?

To be sure, there is no final answer. If the purpose of business is to create sustainable value for stakeholders and if the future of a sustainable global economy requires consensus on global moral norms, then the UNGC may be the best available initiative to bring businesses and other groups of civil society together to forge the consensus. One of the criticisms by Sethi and Schepers is the UNGC focus on increasing the number of signatory companies, but they never enquire as to the rationale for this increase. The UN Global Compact, as of 2021, had over 14,000 signatories from business based in more than 160 countries. These companies employ more than 50 million people representing all industries, all ranges of wealth on the part of home countries and all sizes of companies. To develop consensus on global norms and to achieve the transformation envisioned to an inclusive and sustainable global society, however, it will take many more companies. Today there are over 80,000 multinational companies and to garner a critical mass of these businesses, all working toward a common goal, it will take renewed effort. The UNGC has set a target of 20,000 companies in order to have the critical mass to advance significantly the sustainable vision. At the same time, there will be great effort applied to ensure that signatories actually advance the sustainable vision through their strategic plans and projects. This will be a qualitative effort as well as a quantitative one.

In conclusion, I continue to believe that there is a need to have a central organization which can be a forum to gain consensus on the norms and values for sustainable development in the global economy and that the UNGC is the best organization for this important role. The Global Compact offers a forum under the umbrella of the United Nations—with its visibility, global reach, universality, neutrality and convening power—where some of the best members of civil society—non-governmental organizations, academic and public policy institutions, individual companies, business associations and labor representatives—can come together to discuss the changing role of business and the moral norms needed for a more just global economy.

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Chapter 21

The Ethics of the Beargarden



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Abstract This chapter employs the literary device pioneered by the French economist, Thomas Piketty, of juxtaposing modern economic conditions with those which permeated the nineteenth century novel. Money is often referred to in these novels because it served to establish a character's social class in the mind of the reader. In this case the chosen novel is Anthony Trollope's *The Way We Live Now*. Trollope's theme is ethical behaviour both in personal relations and in business. Many of the principal characters frequent a somewhat dubious gentleman's club called the Beargarden, hence the chapter title.

Ethics as originally conceptualised by the Greek philosopher, Aristotle, has been refined over the centuries by the Christian perspectives of Augustine and Aquinas. Catholic Social Teaching, commencing with *Rerum Navarum* in 1891, has continued to enhance our understanding. Catholic Social Teaching was consistent with the post-war settlement comprehending a combination of social democracy, Christian democracy and Keynesian economics. But Keynesianism was undermined by the oil crises of the 1970's opening the way for a more aggressive form of capitalism. For forty years corporate policy has been predicated on the doctrine laid out by the economist, Milton Friedman, that the only responsibility of business is to increase profits. That approach was turbocharged in the 1980s and 1990s by the ratcheting up of share-based executive rewards. This became known as neoliberalism. It created great wealth and great inequality. The culture of greed which it fostered resulted in many high profile business scandals. In short, economics lost contact with ethics.

The ethical failure underlying the scandals prompted the emergence of a complex regime of corporate governance beginning with the Cadbury Report in 1992. Sadly this new regulatory framework for business proved to be a necessary, but insufficient, incentive for ethical behaviour. This prompts the question of whether an ethical model of capitalism is at all possible?

The 2008 financial crash exposed many flaws in Friedman's model, especially with respect to banking. It is argued in this chapter that globalisation is now in retreat and evidence of some deep questioning, even by business, of the primacy of shareholder value over all stakeholders – employees, suppliers, customers – is presented.

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Nevertheless, egregious ethical abuses, albeit within the law, remain and the best that can be said is that the world is in transition to a new paradigm, as yet ill defined. Left to itself, neoliberalism will surely crash even more violently against populist resistance.

Finally, the Irish case is looked at in the context of the foregoing, and, having regard to post-Brexit sustainability, a new more ethical development model closer to that of the Nordic small open economies is proposed.

Keywords Aquinas · Aristotle · Augustine · Bailout · Banks · Cadbury · Capitalism · Economics · Genomics · Globalisation · Greed · Inequality · Keynesianism · Neoliberalism · Nordic · Piketty · Ryanair

Introduction

Anthony Trollope's nineteenth century novel *The Way We Live Now* is a powerful satire influenced by his concern for the growing social evil of dishonesty in business. The central character is the great financier, Augustus Melmotte. His character is captured in the following passage:

It has been already said that Mr. Melmotte was a big man with large whiskers, rough hair and with an expression of mental power on a harsh vulgar face. He was certainly a man to repel you by his presence unless attracted to him by some internal consideration. He was magnificent in his expenditure, powerful in his doings, successful in his business and the world around him was not repelled.¹

In Chapter 37 there is a description of a meeting of the Board of Directors of the South Central Pacific and Mexican Railway in which the 'great chairman', Melmotte, refuses to disclose any information about the functioning of the company to the single director who challenges him. The rest of the directors are quiescent and are clearly in Melmotte's pocket. It is the antithesis of what corporate governance is supposed to be about.

Trollope wrote this novel in 1873 at a time when the world was on the cusp of the first great period of globalisation. In that respect there is a similarity with the world as we know it today. Sadly it is not evident that ethical behaviour in business has improved to the point where the conduct described in the novel is unthinkable today. If it were otherwise the scandals of the last thirty years would not have occurred. Nor is it difficult, leaving physical characteristics aside, to identify individuals in the mould of Augustus Melmotte, not least here in Ireland.

The intention in this chapter is to consider business ethics in the context of advanced capitalist economies and against the background of Catholic Social Teaching. The Irish case will also be examined in comparison with other small open

¹ Anthony Trollope, *The Way We Live Now* (Ware Hertfordshire: Wordsworth Editions, 1995) p. 67. The Beargarden is a Gentleman's Club in London where most of the characters in the book regularly congregate.

economies with a view to identifying a more ethical and sustainable post-Brexit development model.

Ethics Unpacked

Aristotle (384–322 BC), the Greek philosopher who gave us Western civilisation's first systematic treatise on ethics, conceived of the term 'ethics' as a way of examining the moral thought of his teacher, Plato, and Plato's contemporary, Socrates. He conceived of ethics as the moral and behavioural ideal of the way in which human life is conducted. Essentially, Aristotle thought that everything we do should aim at some good. Simply defined, ethics is the study of that human good in its most general terms and how we humans pursue it.² In personal terms ethics is about the positive goals and directions we all set for our lives. It is about how we try to become good people and shape for ourselves a life that is worth living.³

In a Christian perspective on ethics, Augustine (354 – 430) imagined humanity divided between two allegiances, one to an earthly or human city and the other to the City of God,⁴ the choice between them being absolute. There is a tension here between Aristotle and Augustine: ethics as conceived by Aristotle belongs to the human city while the city of Augustine is centred on the Love of God. This is well captured by the Barthian scholar, Kevin Hargaden, when he writes:

Under the surface of the destructive effects of wealth, or the corrosive consequences of capitalism, there lies an idolatrous commitment to a force and a power that is not God, which in Jesus' teaching is presented as anti-God. To help unravel what it means to be a wealthy Christian in the West, we must find a way to examine the weave that Mammon snakes around us in our daily lives. We need a way inside the hold that wealth has on us.⁵

In the Old Testament the prophet Amos champions the poor and indicts the misuse of wealth. He charges that The Lord will never forget those who 'by swindling and tampering with the scales.... can buy up the poor for money and the needy for a pair of sandals'.⁶ This theme is carried through into the New Testaments.

The Catholic writer, Paul Vallely, reminds us that, in the Sermon of the Mount, Jesus explicitly states that food and clothing are God-given.⁷ By feeding the five thousand he was making the point that it is important to feed people's bodies as well

²Aristotle, *Nicomachean Ethics*, trans. Martin Ostwald (Library of Liberal Arts; Indianapolis: Bobbs – Merrill, 1962) p. 3.

³Robin B. Lovin, *Christian Ethics: An Essential Guide* (Nashville, TN: Abingdon Press, 2000) p. 9.

⁴Augustine, *The City of God*, trans. Marcus Dods (New York: The Modern Library, 1950).

⁵Kevin Hargaden, *Theological Ethics in a Neoliberal Age: Confronting the Christian Problem with Wealth* (Eugene, Oregon: Cascade Books, 2018) p.xvi.

⁶Amos 8: 4–7.

⁷Matt. 6: 25–32.

as their souls.⁸ With the parable of the Talents,⁹ he presented wealth as a virtue so long as it was used for the benefit of others and the idea that property is held in stewardship for the good of all and not for the unlimited consumption of the owner. In the parable of the Labourers in the Vineyard,¹⁰ the emphasis is on the need of each person being the proper yardstick for setting wages. This contrasts with the modern world in which the supply and demand for labour is held to be the determining factor affecting wage rates and minimum wage legislation, where it exists, generally falls short of what is actually a living wage. From each according to his/her abilities, to each according to his/her needs, is as much a Christian precept as a Marxist one, according to Valley.¹¹

The Catholic Church places a strong emphasis on ethics. Over the centuries it has developed a substantial and remarkably consistent corpus of doctrine on economic and social issues, collectively known as Catholic Social Teaching (CST). It is firmly based on Scripture and tradition going back through the philosophy of St. Thomas Aquinas in the Middle Ages to the old and new testaments. CST has also been greatly enriched by virtue of its vigorous development from the mid-nineteenth century onwards, beginning with *Rerum Novarum* promulgated by Pope Leo XIII in 1891.

Catholic Social Teaching stands as a reproach to much that is embodied in current orthodox economic thought and practice. A person well placed to know about these matters is the author, Angus Sibley, who was for many years a member of the London Stock Exchange. In his judgement CST explains what is wrong with the exaggerated individualism which leads to economic behaviour based on narrow self-interest and heedless of the common good. It also condemns one of the worst errors in the neoliberalism of today: the tendency to treat human labour as just another commodity to be bought and sold in the market. Sibley avers that this shows up the amoral character of modern economics: the view that we must blindly pursue economic efficiency, whether or not this means doing what is morally acceptable. In summary, Sibley believes that economics, as it is generally understood, taught and practiced today, has by and large lost contact with ethics.¹² This perspective resonates with the views of Pope Francis on ethics as expressed in his 2013 apostolic exhortation, *Evangelii Gaudium*:

This imbalance (between the very rich and the rest) is the result of ideologies which defend the absolute autonomy of the marketplace and financial speculation behind this attitude lurks a rejection of ethics and a rejection of God.¹³

⁸Matt. 14: 16

⁹Luke 19: 11–27

¹⁰Matt. 20: 1–16

¹¹Paul Valley, *Bad Samaritans: First World Ethics and Third World Debt* (London: Hodder and Stoughton, 1990) p. 216

¹²Angus Sibley, *Catholic Economics: Alternatives to the Jungle* (Collegeville, MN: Liturgical Press, 2015)

¹³Pope Francis, *Evangelii Gaudium*, (Rome: Vatican Press, 2013) paras. 56–57.

One of the most prominent free-market economists was the leader of the ‘Austrian School’, Friedrich Von Hayek. He wrote that he would love to see the phrase ‘Social Justice’ expunged from the English language.¹⁴ He complained that ‘the Roman Catholic Church especially has made the aim of social justice part of its official doctrine’.¹⁵

Of course it is commonplace today for many people to argue that religious beliefs should be limited to the private sphere but as the Theologian, John D’Arcy May points out, it is the religions that created and transmitted ethical values which for innumerable peoples are the foundation of human community, the stability of social structures and the relationship to the natural environment.¹⁶

The concept of business ethics pre-dates the modern era of business regulation and corporate governance. Business relationships are supposed to embrace values such as trust, fairness and respect and for that reason ethics should be an inherent component of business transactions. To an extent, however, these values have arguably been superseded, or at least watered down, by the corpus of business regulations and corporate governance rules introduced in the last thirty years. As business relations become more impersonal and at arm’s length in a globalised world one could argue that ethics become more relevant but there seems to be ever more reliance in the legal and regulatory framework. According to some commentators this has created a perception that ethics is secondary to business and this is premised on the assumption that legal and regulatory frameworks are sufficient or even superior to ethical principles in guiding business behaviour.¹⁷ As we shall see later from the evidence, this is a misconception because unethical behaviour has been at the heart of business failures in many cases.

According to the website of the Institute of Business Ethics, a non-profit organisation, business ethics is defined as follows:

Business ethics is the application of ethical values to business behaviour. Business ethics is relevant both to the conduct of individuals and to the conduct of the organisation as a whole. It applies to any and all aspects of business conduct, from boardroom strategies and how companies treat their employees and suppliers to sales techniques and accounting practices.

Ethics goes beyond the legal requirements for a company and is, therefore, about discretionary decisions and behaviour guided by values.¹⁸

A survey¹⁹ of 401 members conducted by the Institute of Directors in Ireland in 2017 reveals the following data on boardroom attitudes:

¹⁴ Friedrich A. Hayek, *Law, Legislation and Liberty: Volume 2 – The Mirage of Social Justice* (Chicago, IL: The University of Chicago Press, 1976) p. 97.

¹⁵ *Ibid.*, p. 66.

¹⁶ John D’Arcy May, *Pluralism and Peace: The Religions in Global Civil Society* (Melbourne: Coventry Press, 2019) p. 130.

¹⁷ Alison Dillon Kibirige and Winifred Tarinyeba Kiryabwire, *Corporate Governance Unlocked: An Introduction for the Curious Mind* (London: ICSA Publishing Ltd, 2019) p. 155

¹⁸ ibe.org.uk/frequently-asked-questions/3#faq273

¹⁹ [Iodireland.ie/resources-policy/research/tone-top-boardroom-ethics-ireland](https://iodireland.ie/resources-policy/research/tone-top-boardroom-ethics-ireland)

- 81% say that recent controversies and public scrutiny has increased boardroom focus on ethical behaviour and 90% say that reputational risk is the key driver for ethical behaviour.
- Almost half (44%) do not monitor their own compliance with ethical behaviour through board evaluation or internal audit processes.
- 50% of CEOs/executive management say that ethics were not mentioned in their most recent annual report.
- Almost half of respondents (49%) believe there is a prevalence of conflicts of interests among boards in Ireland.
- The Conflicts of Interest Policy is attributed the least importance by the board, which compared with the Ethics Policy and the Values Statement.
- 20% CEO/Executive management respondents say that they never report to the board on ethical matters.
- After the board as a whole (33%), the board's Chairperson is the second lead for monitoring the Conflicts of Interest Policy (26%). However, 40% of the respondents say that the Chairperson's ethical behaviour in itself is not monitored, or that they are unsure whether it is or not.
- Executive management does not have a way of measuring their own ethical behaviour according to 32% of all respondents. However, when **just** CEO/executive management respondents are analysed, 42% say that they do not have a way of measuring their ethical behaviour.
- Most Non-Executive Directors (29%) do not know how often ethics are discussed in management settings.
- Almost a quarter of respondents, 24% commented that ethics are "never" or "infrequently" an item for discussion on the board's agenda, or "as the need arises".

According to Kibirige and Kiryabwire the ethical leadership role of the board is of key importance and can be considered to have three components. First and most important, Directors must be people of personal integrity. Secondly, Directors must behave ethically in the exercise of their duties and responsibilities which means being guided by ethical principles and values such as independence, transparency and acting in the best interest of the company. Thirdly, the board must ensure that the organisation has a code of ethics supported by a process to ensure that it is adhered to.²⁰

It should not be forgotten that business-to-business transactions often fall victim to unethical conduct. PWC Ireland, a consultancy, found that the number of Irish firms which were victims of economic crime and fraud had increased from 26% in 2010 to 49% over the 2017 to 2018 period. One in ten of those companies lost more

²⁰ Kibirige and Kiryabwire, p. 162.

than €4 million.²¹ A representative of PWC describes economic crime as a big business in its own right; tech-enabled, innovative, opportunistic and pervasive.²²

The Doctrine of Shareholder Value

The doctrine of maximising shareholder value is generally associated with the American economist Milton Friedman. His views did not get much traction until the early 1980s when the economic shock of the oil crises, and the rise in inflation, undermined confidence in the Keynesian economics upon which the post-war consensus rested. Friedman's view was that the only social responsibility of business was to use its resources and to engage in activities designed to increase its profits, so long as it stayed within the law. The election of Margaret Thatcher in Britain and Ronald Reagan in the United States ensured that, at least in the Anglosphere, the legal environment remained accommodative. Business school and management consultants embraced this doctrine with enthusiasm and proselytised for the primacy of shareholder value in the 1980s and 1990s.²³

Thus was ushered in a model of capitalism which was much harder, more mobile, more ruthless and more focused with regard to its objectives. It was categorised as turbo-capitalism, in contrast to the more controlled and regulated capitalism of the 1950s and 1960s. It was driven by an ideological belief that all obstacles to its capacity to serve shareholder interests – regulation, controls, trade unions, taxation, public ownership – were unjustified and should be removed. Specifically, it held that labour markets should be 'flexible' and that capital should be free to invest and disinvest in industries and countries at will.²⁴ From the viewpoint of its proponents this model of capitalism has been a success. Unions declined and profits increased: in America they have risen from 5% of GDP in 1989 to 8% now.²⁵

However, this success for shareholders came at enormous cost for society. The clearest manifestation has been the growth of inequality especially over the last twenty years. This has undermined capitalism in the sense that popular disaffection is being reflected in political upheaval in many countries, ironically to the benefit of far-right political parties. Moreover, the de-regulation of markets opened the way for a succession of business scandals, culminating in the financial crash of 2008, which revealed an appalling vista of unethical behaviour at corporate level.

²¹ PWC Ireland, 'Reported Economic Crime Hits High Levels in Ireland', 18 June 2018, <https://www.pwc.ie/media-centre/pressrelease/2018/irish-economic-crime-survey-2018.html>.

²² Cited in David McLroy, 'Why can't we take economic crime seriously?' *Working Notes, JCFJ*, Issue 84, June 2019.

²³ 'I'm from a Company and I'm here to help', *The Economist*, August 24th 2019, pp. 16–18.

²⁴ Will Hutton and Anthony Giddens, 'Introduction' in Will Hutton and Anthony Giddens (eds.), *On the Edge: Living with Global Capitalism*, (London: Jonathan Cape, 2000), pp. 9–10.

²⁵ *The Economist*.

A series of business scandals beginning in the 1990s has taught us that ethics is central to corporate governance. Among the most high profile was that of Robert Maxwell and the Mirror group, Barrings Bank, the Bank of Credit and Commerce International, Polly Peck International and Enron (2001). These led to a degree of activism to promote corporate governance beginning in the UK.

In each of the cases listed above there seemed to be serious accounting or financial accounting irregularities and inadequate internal controls and risk management. Some common themes to emerge were:

- Investors were not kept informed of what was really going on in the company;
- The published financial statements were misleading;
- External auditors did not do their work properly;
- The companies had self-serving powerful chiefs, who lacked business ethics;
- Board members were unable to restrain management from acting improperly.

In short it was an approach to business ethics that Augustus Melfort would have found congenial. Something had to be done so the London Stock Exchange asked Sir Adrian Cadbury to investigate. His report, published in 1992, became the foundation stone for a regime of corporate governance which has been adopted in whole or in part by 98 countries. This was subsequently augmented by a number of other reports developing specific aspects of corporate governance – Greenbury, 1995 (Directors remuneration), Hampel, 1996 (Principles), Turnbull, 1999 (Risk Managers), Higgs, 2003 (Effectiveness of non-executive Directors), Smith, 2003 (Audit Committees) – and by the G20/OECD Principles of Corporate Governance in 2015.²⁶ Many governments also introduced enhanced company law provisions such as the 2014 Companies Act in Ireland.

Notwithstanding the corpus of Corporate Governance rules and Company law, ethical failures still occur as evidenced by recent revelations about emissions reporting in the car industry. It is also the case that the primary objective is to protect shareholders not customers, suppliers, employees or other stakeholders.

A key aspect of the shareholder value approach is the alignment of Managers' and Shareholders' interests. This is achieved by granting Managers various incentives relating to increases in share prices.²⁷ This approach is epitomised in the

²⁶ Alison Dillon Kibirige and Winifred Tarinyeba Kiryabwire, *Corporate Governance Unlocked: An Introduction for the Curious Mind* (London: ICSA The Governance Institute, 2019).

²⁷ Ben Hunt, 'Managers are enriching themselves at shareholder' expense, *The Financial Times*, 2019. In this article Hunt explains how executives of large companies can use share buybacks to enrich themselves. Under the narrative cover of a "return of shareholder capital", hundreds of billions of dollars can be shunted away from shareholders and towards corporate management. When a company issues new shares to executives with one hand (at a low price) by way of incentive, and buys back those shares on the open market with the other hand (at a higher price), that price difference multiplied by the number of traded shares equal value that never reaches shareholders at all. It is entirely captured by the recipients of the new shares. This is the agency problem, a classic conundrum of economics, where shareholders' agents – corporate management – find ways to benefit themselves at the expense of shareholders by gaming the system. So, in fact, the objective of aligning shareholders' and managers' interests can have unintended outcomes.

decision by Ryanair shareholders at the company AGM in September 2019 to grant the CEO a potential bonus of €100 Million if the share price could be doubled over five years. This decision was taken, albeit by a slim majority, on the day that Ryanair announced five hundred redundancies. It must take a rare form of myopia not to realise the ethical contradictions in this behaviour.

Is an Ethical Model of Capitalism Possible?

The foregoing begs the question whether an ethical model of capitalism is possible? There is a trilemma at the heart of globalisation. Writing about the first period of globalisation which began in 1890 and ended in 1914 and comparing it with our own era, the writer Dani Rodrik coined the term ‘impossibility theorem’: that democracy, national sovereignty and global economic integration are mutually incompatible.²⁸ We can combine any two of the three, but never have all three, simultaneously and in full. The first era of globalisation came to an abrupt and violent end with world war one and its key features could not be resuscitated for decades.²⁹

Michael O’Sullivan, from Cork Ireland, who is a senior investment banker with Credit Suisse, argues that globalisation has peaked and is now in decline.³⁰ In support of this thesis he points to the fact the key components of globalisation – flows of trade, finance, ideas, services, and people – have all ebbed since 2015. From 2011 onwards trade had rebounded from the relative lows of the global financial crisis and had again attained the level reached in 2008 – 2009, the highest level in fifty years.³¹ But trade is again back to 2011 levels such that in 2018 the OECD observed that trade between G20 countries had declined significantly. Moreover, foreign direct investment is now below 2009 levels.³² The trend will undoubtedly continue as the United States is intent on erecting trade barriers between itself, Europe and Asia (especially China). The nub of O’Sullivan’s argument is that globalisation as

The guru of corporate governance, Sir Adrian Cadbury, also had considerable reservations about this approach to rewarding corporate management. In *Corporate Governance and Chairmanship: A Personal View* (Oxford: Oxford University Press, 2002) pp. 224–225, he wrote that the flaw in the approach is that executives gain with rising stock markets and all they lose when markets fall is the possibility of gain. He describes this as a one-way bet.

²⁸ Dani Rodrik ‘The Inescapable Trilemma of the World Economy’, 2007: Blog Post: http://rodrik.typepad.com/dani_rodriks_web/log/2007/06/the-inescapable.html

²⁹ Ivan Roberts ‘The Realities of a No-Deal Brexit’, *The Spectator*, 2 September 2019. www.blogs.spectator.co.uk/2019/ivan-roberts-the-realities-of-a-no-deal-brexit/

³⁰ Michael O’Sullivan, *The Levelling: What’s Next after Globalization?* (New York: Public Affairs, 2019).

³¹ Ibid, pp. 30–31.

³² Organisation for Economic Cooperation and Development (OECD), ‘G20 International Merchandise Trade Statistics’, news release, 29 August, 2018. <http://www.oecd.org/sdd/its/OECD-G20-Trade-Q22018.pdf>

we know it is finished and the world is entering a transition phase towards a state of being that will be different from what we have experienced over the last thirty years. It is a long way from the vision of a global liberal democratic order envisioned by the Harvard political scientist, Francis Fukuyama, in his famous book *The End of History*, published in 1992.³³

Arguably the most influential book of recent years has been *Capital in The Twenty-First Century* by the French economist, Thomas Piketty.³⁴ Its searing critique of globalisation and the inequality which it has generated captured the public interest in a way that a dry tome on economics might never have expected to have.³⁵ It also galvanised institutions like the IMF, the World Bank and the McKinsey Global Institute to take an interest such that they all now profess alarm that inequality is too high. Piketty's key finding – the tendency of returns on capital to exceed the rate of economic growth – is identified as the main driver of inequality and threatens to stir levels of discontent manifested in the political populism which is rife today.³⁶

A capitalist system which generates extreme inequalities and which privileges the rights of capital ownership over the rights of labour can hardly be said to be ethical. It would seem that an ethical capitalism is not then attainable. However, a much more nuanced view is offered in a recent book by Torben Iversen and David Soskice.³⁷ It seeks to counter the view that rising inequality and the resultant populist backlash, are inevitable. It suggests rather that these problems arise primarily from failures of democracy because, contrary to the prevailing wisdom on globalisation, advanced capitalism is neither footloose nor unconstrained: it thrives under democracy precisely because it cannot subvert it. This is an important contribution, particularly from Soskice because he is the progenitor, with Peter Hall, of a school of literature known as the Varieties of Capitalism³⁸ which builds on the theoretical work of Karl Polanyi³⁹ and finds the greatest degree of practical expression in the politics of the small open economies of Northern Europe. I will argue later that

³³ Francis Fukuyama, *The End of History and the Last Man* (London: Penguin, 1992).

³⁴ Thomas Piketty, *Capital in the Twenty-First Century* (Cambridge MA: Harvard University Press, 2014).

³⁵ Thomas Piketty addressed the annual conference of TASC, a think tank focused on economic inequality, in Dublin in 2016. The normal attendance would be 30–40 people. On this occasion 700 attended.

³⁶ Piketty makes an important distinction between the inequality associated with labour income and that related to capital. To understand the order of magnitude involved, the upper 10% of the total labour income distribution generally receives 25–30% of total labour income, whereas the top 10% of the capital income distribution always owns more than 50% of all wealth (and in some societies as much as 90%).

³⁷ Torben Iversen and David Soskice, *Democracy and Prosperity: Reinventing Capitalism through a Turbulent Century* (Princeton: Princeton University Press, 2019).

³⁸ Peter A. Hall and David Soskice (eds.), *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (Oxford: Oxford University Press, 2001).

³⁹ Karl Polanyi, *The Great Transformation: The Political and Economic Origins of our Time* (Boston: Beacon Press, 1944).

this is a model of capitalism which offers a more humane prospect than the liberal market Anglo-Saxon model which shapes Ireland's polity to some degree. The point I wish to emphasise here is that context is important in that the precise nature of the relationship between states and markets has an influence on business ethics.

The thread which runs through the recent study by Iversen and Soskice is a belief that capitalism can mutate to reflect the pressures on it from democratic society. There is a growing realisation that the major tenet of free market economics – that unregulated markets will of their own accord achieve good outcomes for participants – is not sustainable. The evidence for this is a statement by the Washington based Business Roundtable signed by 181 CEOs in August 2019 signalling a major policy shift.⁴⁰ Since 1978, Business Roundtable has periodically issued Principles of Corporate Governance. Generally speaking these have endorsed principles of shareholder primacy. The new statement commits member companies to investing in employees, dealing fairly and ethically with suppliers, exceeding customer expectations, and serving the needs of communities. In essence the purpose of business, according to the statement, is to serve the needs of stakeholders rather than shareholders alone. According to *The Economist* this change in direction is driven by a perceived decline in business ethics, from bankers demanding bonuses and bail-outs both at the same time, to the sale of billions of opioid pills to addicts.⁴¹ This is a significant development because only a very deep concern could persuade business leaders like the chiefs of Walmart and JP Morgan Chase to ditch four decades of business orthodoxy.

The 2008 Financial Crisis

There is no doubt but that the financial crisis of 2008, and its ramifications, caused a spotlight to fall on unethical behaviour in both politics and business at many levels. However, the cockpit of the crisis was the global banking system. The rot started in the US where banks engaged in very unethical lending to poor people in what was known as the sub-prime market. The intention was to maximise investment returns in a world suffering from a glut of saving and to minimise the risk of inability to repay the loans by bundling them into a range of exotic financial products and selling these on. The theory was that by spreading risk in this way, nobody would be exposed. But the adage 'when the tide goes out you can see who is not wearing swimming trunks' applied – everyone was exposed. The crisis was precipitated by the collapse of Lehman Brothers bank on 15 September 2008.

This was followed by Merrill Lynch, Washington Mutual and Bank of America. The market convulsions that followed washed through Europe as well. The Dutch

⁴⁰ Business Roundtable Redefines the Purpose of a Corporation to Promote "An Economy that Serves all Americans", Business Roundtable, 19 August 2019 <https://opportunity.businessroundtable.org>

⁴¹ 'What Companies are for', *The Economist*, 24 August 2019.

bank Fortis, the Franco-Belgian financial group Dexia and Germany's second biggest mortgage lender, Hypo Real Estate, had to be saved from collapse with public and private sector money. European and North American governments moved to prop up their banking systems with funding of between €3000 and €4000 billion to ward off the most serious financial threat to the world economy since the depression of the 1930s.

Ireland was very quickly pitched to the front of the gathering crisis. Up to that point it had enjoyed the sobriquet 'Celtic Tiger', but inappropriate risk-taking by banks had built up unsustainable financial exposure to a falling property market. Ireland's banks had borrowed short from European banks and lent long to developers and homebuyers. The collapse of Lehman Brothers caused a crisis of confidence such that interbank lending froze. This meant that Irish banks could not roll over their loans. Initially this was seen by the authorities as a liquidity crisis. Being under pressure from the European Central Bank (ECB) not to allow any bank to fail, the Irish Minister for Finance guaranteed all bank liabilities at six financial institutions, an approximate potential liability of €440 billion.⁴² This was equivalent to 250% of Ireland's GDP. In the event the liquidity crisis turned out to be a solvency crisis, and banking debt turned into sovereign debt imposing a heavy burden on Irish citizens.

The social consequences of the bank bailout, which eventually will settle at a financial cost to the exchequer of around €31 billion,⁴³ were very severe. Membership of the Eurozone meant that the policy of adjustment fell on public services and labour markets. The strategy adopted was to engineer an internal devaluation – because the currency could not be devalued – in an effort to bring down wages and prices. The peripheral countries were judged ineligible for what they really needed, that is outright debt relief via Eurobonds or other mechanisms. Such options were opposed because of a kind of moral distain on the part of creditor countries, particularly because such action might be judged illegal by the German Constitutional Court. The speed of change in Ireland came as a shock. Unemployment rose quickly from 4% to 15%. This was most acute in the construction sector where employment fell from a peak of 286,000 to 80,000. Overall some 365,000 jobs were lost. Net

⁴² In June 2013, taped conversations between two top executives of Anglo Irish Bank were revealed in the media. In one exchange the executives candidly admit asking for €7 billion from the Financial Regulatory Authority despite knowing that the needs of their troubled bank were much larger. Had the truth been told, the authorities might have let the bank fail. These revelations, in their content and tone, caused enormous public anger and damaged Ireland's efforts to achieve a recapitalisation of the banking system via the European Stability Mechanism. The conversation revealed in the tapes is redolent of the conversation which takes place in Trollope's *The Way We Live Now* between Melmotte and his colleague Mr. Croll (pp. 616–617) when they realise they are financially ruined. The bravado in the face of doom is present in both conversations but Trollope does not allow invective.

⁴³ Patrick Honohan, *Currency Credit and Crisis: Central Banking in Ireland and Europe* (Cambridge: Cambridge University Press, 2019).

immigration turned quickly to net emigration. Wage cuts were imposed in the public sector and in some parts of the private sector.⁴⁴ Many people lost their homes.

Clearly the banking crisis was a result of an ethical failure which transcended all the corporate governance rules which had been put in place since the 1990s. In the words of some observers, the historical focus on risk, controls, compliance and other aspects of governance has led to repeated cycles of failure and scandals and demonstrated a clear vacuum, viz, ethics.⁴⁵ Ashoka Mody, formerly of the International Monetary Fund (IMF), described it in the Irish case, as the result of an insidious nexus of relationships among politicians, property developers and banks associated with rising property prices which increased the incentives and potential for corruption.⁴⁶

At a European level the imposition of a rigid rules-based approach based on German *ordo* liberalism may be consistent with an approach based on Christian deontological ethics, but outside of the particular social market economy context, it presents as a raw form of neoliberalism. Over the period of three years or so that the EU/ECB/IMF Troika was in charge of the Irish economy, I met with them eight times in my capacity of General Secretary of the Irish Congress of Trade Unions (ICTU). It was always a dispiriting experience and I formed the view that the people involved were indifferent to the social consequences of the austerity they were imposing on the Irish people. I agree with the analysis of Adam Tooze that the Eurozone, through wilful policy choices, drove tens of millions of its citizens into the depths of a 1930s-style depression.⁴⁷ The EU, by virtue of its strong support of Ireland in the Brexit case, rightly enjoys a high level of public support these days, but, in my opinion anyway, it did not behave ethically during the financial crisis.

Whither Ireland Now?

In the century since independence, Ireland has looked into the abyss of economic desolation four times. The first was in the 1930s when deValera moved policy from agricultural *laissez Faire* to import substitution industrialisation. The second was in the 1950s when Lemass and Whitaker reversed course towards export orientated industrialisation and ultimately membership of the European Economic Community (EEC). The third time was 1987 when a combination of the Single European Act (SEA), two devaluations, and social partnership took the country of the rocks. In the early 1990s people were beginning to wonder whether Ireland was a viable

⁴⁴ This account of the banking crisis is drawn from my book: David Begg, *Ireland, Small Open Economies and European Integration: Lost in Transition* (Basingstoke: Palgrave Macmillan, 2016).

⁴⁵ Dillon and Kiryabwire, p. 161.

⁴⁶ Ashoka Mody, *Eurotragedy: A Drama in Nine Acts*, (Oxford: Oxford University Press, 2018).

⁴⁷ Adam Tooze, *Crashed: How a Decade of Financial Crisis changed the World* (Gr. Britain: Allen Lane, 2018), p. 15.

economic entity at all.⁴⁸ It was at that time that the National Economic and Social Council (NESC) asked a Norwegian academic, Lars Mjoset, to compare Ireland with other small open economies to find out why they were doing so well and Ireland was doing so badly. Mjoset's report identified a number of factors inhibiting Ireland's development, principally the debilitating effects of emigration and the absence of a national system of innovation.⁴⁹

What is clear from this pattern is a flaw described by Denis O'Hearn as a propensity of the Irish capitalist class to be always much more willing to invest outside the country than in it.⁵⁰ According to T.K. Whitaker's biographer, Anne Chambers, he largely agreed with O'Hearn, noting that native Irish industry demonstrated a lack of entrepreneurship and ideas and largely failed to make use of opportunities.⁵¹ Thus domestic capital's legitimacy as an engine of Irish industrialisation was fatally damaged during the 1950s and resistance to foreign investment dissolved. As O'Hearn succinctly puts it, the Irish bourgeoisie was powerless to stop free trade. And so for the last fifty years foreign direct investment, enticed by low corporation tax, and facilitated by the Single European Act, has been the cornerstone of Irish Industrial Policy. We have embraced a liberal market model of capitalism, red in tooth and claw, and we have done well out of it. Exchequer returns for the period 1 January to 31 August, 2019 show that business tax has generated a record €4.9 billion.⁵² There is an ethical cost to this though, because our government is entirely incapable of voicing any criticism of the policies of the American government lest it antagonise investors. Under Trump and Pence, because their policies are extreme, this amounts to a level of abasement which is not good. Moreover, Ireland is in the embarrassing position of having to appeal an EU Commission determination that Apple received €13 billion of illegal tax aid. The appeal stems from an EU investigation instigated in the wake of Apple CEO, Tim Cook, telling a US Senate subcommittee in May 2013 that the company paid an effective tax rate of less than 2% in Ireland over the previous decade. The Irish government is over a barrel because Apple employs 6000 people in the country. Failure to side with the company might, at the very least, put further investment at risk. And yet that €13 billion, if invested in health care or housing, would save our citizens a lot of hardship. Clearly this is quite an ethical dilemma for government. According to the *Financial Times*, tax competition strategies are costing OECD countries about \$450 billion in revenue lost.⁵³

⁴⁸ Ray McSharry and Padraic White, *The Making of the Celtic Tiger: The Inside Story of Ireland's Boom Economy* (Cork: Mercier Press, 2000).

⁴⁹ Lars Mjoset, *The Irish Economy in a Comparative Institutional Perspective* (Dublin: NESC, 1992), Report No. 93.

⁵⁰ Denis O'Hearn, *The Atlantic Economy: Britain, The US and Ireland* (Manchester: Manchester University Press, 2001) p. 132.

⁵¹ Anne Chambers, *T.K. Whitaker: Portrait of a Patriot* (London: Doubleday, 2014), p. 154.

⁵² Eoin Burke-Kennedy, 'Government in line for another record tax take: but Brexit may curtail spending', *The Irish Times*, 4 September 2019, p. B1.

⁵³ Martin Wolf, 'Why Rigged Capitalism is Damaging Liberal Democracy', *The Financial Times*, 18 September 2019.

The truth is that there are a number of vulnerabilities which challenge the long-term sustainability of Ireland's development model. Brexit presents an existential crisis but there are other problems too: there is resentment in Europe of Ireland's tax regime. It is also under threat from the OECD. American policy on trade is undermining the existing order, and corporation tax receipts, although large, are concentrated in a small number of big companies including tech. giants, Apple, Microsoft, Dell, Google, Oracle and Intel. We also have big deficits in social infrastructure such as housing, healthcare, childcare and eldercare.

My view is that Ireland needs to find a new development model and to realign itself in Europe, now that Britain is gone, with the small open economies of Northern Europe. This includes migrating away from a liberal market economy towards a social market economy and embracing a more just and ethical form of capitalism with less propensity to inequality. While some people might consider the idea of ethical capitalism to be an oxymoron, I think that we can do a lot better.

The current US Business Roundtable pivot towards a stakeholder model of capitalism may be revolutionary for that country but it has long been the norm in the Nordic countries. In fact, in the mid-1980s when US industrialists were fearful of competition from Japan, Peter Katzenstein, who was then Professor of Government at Cornell University, in a work of significant comparative political economy, explored how the tensions between states and markets could be managed to best effect for a number of European countries. He noted that the small open economies could only prosper through achieving a degree of societal consensus involving the capacity to be economically competitive while at the same time protecting citizens from the ravages of free markets. He found that this called for a large public sector, good quality public services and high social transfers. The polity to achieve this he described as democratic corporatism, the defining characteristics of which are:

- (i) An ideology of social partnership;
- (ii) A centralised and concentrated system of economic interest groups;
- (iii) An uninterrupted system of bargaining amongst all the major political actors across different sectors of policy.

Most people today would recognise these characteristics in the acclaimed Nordic model.⁵⁴

Thirty years later, following on the work of Katzenstein and Mjoset, I set out to establish how Finland, Denmark and the Netherlands had coped in the intervening years with the pressures of financial globalisation and European integration, and to compare them with Ireland.⁵⁵ I found that the Netherlands was the most 'Nordic' of

⁵⁴ Peter J. Katzenstein, *Small States in World Markets: Industrial Policy in Europe* (New York: Cornell University Press), 1985.

⁵⁵ David Begg, *Ireland, Small Open Economies and European Integration: Lost in Transition*, (Basingstoke: Palgrave Macmillan, 2016). The research for this book was conducted on a theoretical framework based on the work of Karl Polanyi and the subsequent Varieties of Capitalism school of literature popularised initially in 2001 by Peter Hall and David Soskice. Polanyi was a Hungarian anthropologist who fled the Nazis, first to the LSE in London and later to New York

the European continental countries in the context of measures of redistribution, equality and labour market regulation. The three comparator countries over the years transcended various economic crises to reform their advanced welfare states but to nevertheless do so in a way that preserves the core values and protections of the welfare state. At the same time these small open economies remain amongst the most economically strong in Europe. The 'ideology of social partnership' identified by Katzenstein as a key component of their success almost succumbed to the 'primacy of politics' argument during the 1980s and 1990s but recovered by the end of the 1990s to a point where it is seen as the first refuge in a crisis and seems to be firmly embedded in the institutional architecture of each country. By contrast, social partnership was one of the first victims of the crisis in Ireland. From an ethical viewpoint this is regrettable because social partnership did give voice to a broad range of civil society actors who might balance business interests inputting to government policy. The competitive strength of the Nordic economies (and the Netherlands), before and after the 2008 crisis, is now recognised as in part a product of their expensive, active and capacitating, universal provision in areas of work, care and welfare in direct contrast to neoliberal dogma.

By comparison with these countries Ireland is an outlier in Europe. It is the sole liberal market economy within the Eurozone, the most distant geographically of the Northern member states from the heart of Europe, and one of only three countries not part of the continental land mass. The Irish economy cycles out of phase with the other countries of the Eurozone because of its heavy export and investment dependence on Britain and the United States. Its huge and disproportionate dependence on FDI makes it the mirror image of the three comparator countries, all of which have a strong indigenous industrial base. In any event an overreliance of US FDI attracted by low corporate tax rates does not look to be sustainable in the long run. Moreover, if Britain leaves the EU it may become a competitor for investment based on lower corporate taxes and lighter regulation – 'Singapore on Thames' as favoured by the right-wing of the Tory party.

It is for these reasons that Ireland needs to find a new development model. It is possible to achieve a more ethical form of social market capitalism and, at the same time, high levels of economic efficiency and competitiveness as the comparison with the small open economies of Europe demonstrates.

It may be of interest to note that the dominant religion in the Nordic countries is Lutheranism. When the Reformation came to Scandinavia in the sixteenth century, Protestantism became the state religion, but the state gained the upper hand. The

where he published his canonical work *The Great Transformation* in 1944. It is arguably the most influential critique of market liberalism ever written. In the post-war period, with the advent of the Cold War, and the polarised public discourse that attended it, there was little room for Polanyi's nuanced and complex arguments. Polanyi was a Christian Socialist. While he shared a lot of the Marxist critique of capitalism, he did not accept the concept of economic determinism. Basically his core argument is that the deepest flaw in market liberalism is that it subordinates human purposes to the logic of an impersonal market mechanism. In the context of the modern debate about globalisation, his work is increasingly being seen as being particularly relevant.

subordination of religion to civil authority, and the religious homogeneity of these countries, minimised the development of religious cleavages. This was different to the way continental European welfare states emerged which was mainly via a compromise between social democracy and Christian democracy. In Scandinavia compromise tended to be between agrarian and industrial political interests.⁵⁶

Nevertheless, the post-war reconstruction in the West was marked by a social democratic era of capitalism – sometimes referred to as democratic socialism – which ushered in a historically unprecedented period of sustained economic growth and improved levels of equality. The then Cardinal Ratzinger identified this form of capitalism as the implicit ideal of Catholic social doctrine. In this era, the market was orientated towards the common good through strong government regulation and substantial tax funded public investment. These positive outcomes were also driven by strong unions and a concord between business, labour and government to co-operate in the national common good.⁵⁷

It is a strange paradox of history that, despite an overt Catholic polity, social democracy has never taken a foothold in Ireland. The reasons for this are complex but have a lot to do with the dominance of competing varieties of nationalism in public discourse. Every significant issue since the foundation of the state was conceptualised in terms of independence rather than of class interest. Nationalism trumped ideology. In a strange and unwelcome way the departure of Britain from Europe marks the denouement of the independence debate. Like it or lump it, our future is in the Eurozone and we need to adjust our development model to that reality. It means adopting a social market economy model and aligning with the other small open economies of Northern Europe. It will not be an uncomplicated transition but in the long run, it will give us a more ethical and sustainable variety of capitalism.⁵⁸

Future Ethical Challenges

Whatever about the future of globalisation and the varieties of capitalism, it is likely that technological advances will pose new and complex ethical challenges. Innovations in technology are clearly among the most destabilising elements in

⁵⁶ Kimberly J. Morgan, 'The Religious Foundation of Work-Family Policies in Western Europe' in Kees Van Kersbergen and Philip Manow (ed.), *Religion, Class Coalitions, and Welfare States* (Cambridge: Cambridge University Press, 2009), p. 65.

⁵⁷ Vincent J. Miller 'What Does Catholic Teaching Say About the Economy? It's More Complicated than You Think', *Faith and Reason*, April 1, 2009 issue.

⁵⁸ Begg, p. 205. In April 2018 the Irish Minister for Finance, Paschal Donohoe, wrote an article making the case for joining 'Hanseatic League 2', a group of small Northern European states. Essentially he accepts the arguments outlined in my book and was kind enough to acknowledge this. Paschal Donohoe, 'Aligning Ourselves With Our Friend in the North', *The Sunday Business Post*, 1 April, 2018, p. 18.

present-day societies. This is nothing new of course, but the speed and scale of technological change is unprecedented in history.

Take for example, the potential impact of artificial intelligence (AI). A 2013 report by McKinsey consultancy suggests that the automation of knowledge work could potentially eliminate up to 140 million full-time jobs in the period up to 2015. Advanced robotics in industry could automate 60 million jobs in the same period. These are euphemistically often referred to as 'disruptive technologies'. But the figures mentioned above account for 8% of total employment worldwide, so 'disruptive' is quite understating the effect.⁵⁹

Future predictions have often been wide of the mark in the past. Nevertheless, it is difficult not to fear change on this scale. Can our societies survive if these predictions are borne out? Current economic theory holds that technological change fosters major economic growth and therefore people displaced will sooner or later be re-employed. Sibley acknowledges that this is what has happened in the past but this historical growth has brought us to a situation where we are overconsuming the earth's renewable resources by around 50%.⁶⁰ Transitioning in any kind of socially just way to a low carbon future combined with high levels of job destruction clearly poses profound ethical challenges. The neoliberal free market approach, if left to itself, will surely crash more violently, even than it is doing now, into the buffers of populist resistance. We would do well to adopt an alternative path before it is too late. In my opinion the US Business Roundtable policy shift referred to earlier, while welcome, is not sufficient. The only way stakeholders can function on a par with shareholders is through strong unions and collective bargaining. I suspect that US business leaders would balk at this.

Another potential area of ethical challenge is in the interface between business and medicine. There are, for example, existential challenges relating to the development of genomic medicine as a public good. Genomics is the study of our genes – the DNA contained in the cells of the body that act as a blueprint for every human being. Genomic research has the potential to identify treatments for conditions, such as multiple sclerosis, and certain types of cancer which are now considered to be incurable. Moreover, faster diagnoses and earlier detection of disease will be made possible by genomic medicine. This could facilitate targeted therapeutic interventions with much better patient outcomes.

In a recent newspaper article,⁶¹ two scientists from Trinity College, Dublin, argue that genomic research should be funded and controlled by the state as a public good. While this is the case with the NHS in Britain, they deprecate the fact that public policy in this matter in Ireland is underdeveloped and, insofar as policy exists at all, it seems to be based on allowing the private sector to take the initiative. They point out that the Irish Strategic Investment Fund (ISIF) invested €72.2 million in a

⁵⁹ Cited in Sibley, p. 197.

⁶⁰ Ibid.

⁶¹ David McConnell and Orla Hardiman, 'Genomic Medicine Strategy Putting Profit Before People', *The Irish Times*, 3 July, 2019, p. 12.

company called Genomic Medicine Ireland (GMI). They claim that this company is now owned by WuXI, a Chinese pharmaceutical company. The article further asserts that medical information has been collected from patients in public hospitals and given to GMI which will own all the clinical and genetic code information of the patients, which is of considerable commercial value.

Genomic medicine is clearly the future and it must surely be the case that it be properly and ethically governed so that data obtained from citizens is used for the benefit of the population and not for profit.

The Catholic theologian, Donal Dorr, points out that in both *Evangelii Gaudium* (56) and *Laudato Si* (56) Pope Francis is very critical of the tendency to treat the market as a god which must be obeyed at all costs. Dorr believes that this deification of the market imposes on business people a damaging ethos – a basic set of values which differ radically from the kind of ethics that apply to life outside of business.⁶²

Conclusion

In Trollope's novel *Augustus Melmotte* is eventually exposed as a forger and comes to a sticky end. There is no certainty that a modern day Melmotte would be brought to justice. David McIlroy, a barrister, is of the opinion that economic crime is a defining vice of the neoliberal age. He points to the fact that in Iceland, thirty-six bankers were jailed for their roles in causing the crash of the banking system. In Ireland it was just seven (including two whose convictions were subsequently quashed) and in the UK, just two.⁶³ It does indeed seem that ethics and business have become, at best, semi-detached. According to Martin Wolf of *The Financial Times* an explanation can be found in the reality that personal financial considerations permeate corporate decision-making.⁶⁴

Ironically, the moral agnosticism of neoliberalism claims legitimacy in the work of the Scottish ethicist, Adam Smith, but this is a distortion of his views as can be judged from the opening lines of his *Theory of Moral Sentiments*:

How selfish so ever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it. Of this kind is pity or compassion, the emotion which we feel for the misery of others, when we see it, or are made to conceive it in a very lively manner.⁶⁵

⁶² Donal Dorr, 'False Religion: The "Market" Treated As A God', *Doctrine and Life*, Vol. 69, No. 7, September 2019, pp. 25–33.

⁶³ McIlroy, p. 5.

⁶⁴ Martin Wolf, 'Why Rigged Capitalism is Damaging Liberal Democracy', *The Financial Times*, 19 September 2019.

⁶⁵ Adam Smith, *The Theory of Moral Sentiments* (Milton Keynes: Filiquarian Publishing, 2007), p. 5.

John D'Arcy May persuasively argues that the presuppositions of the capitalist economic order fly in the face of the ethical convictions of Adam Smith. The assumption that competition among individuals constantly to produce and consume more in an economy driven by egoism, without regard to the consequences for the planet, is both irrational and unethical.⁶⁶

The Austrian economist, Joseph Schumpeter, coined the phrase 'creative destruction' to explain that the whole point of free markets is to promote progress by constantly replacing old industries and production systems with new. Thus the market can be likened to a nuclear reactor which can create enormous energy but if not controlled can result in catastrophic destruction. The point of having ethical systems in business is to control markets to ensure that they are always embedded in society and not the other way round. A market economy is fine, a market society is not.

The core thesis of this chapter is that Ireland is again at a critical juncture and needs to find a new development model on Nordic lines. It is a situation which requires a quality of ethical leadership of an altogether different order than we have been willing to accept up to now. Specifically, the political class must be honest with citizens about the kind of paradigm shift this will involve in respect of increased taxation and public spending. It is, I think, plausible to suggest that we need the kind of leadership provided by Sean Lemass and T.K. Whitaker when they led Ireland away from protectionism and ultimately towards EEC membership with the publication of the strategy document *Economic Development* in 1957. Whitaker gave expression to what ethical leadership means, albeit for a different era, in words which still resonate fifty years after he wrote them:

Let us remember that we are not seeing economic progress for purely materialistic reasons but because it makes possible relief of hardship and want, the establishment of a better social order, the raising of human dignity, and eventually the participation of all who are born in Ireland in the benefits, moral and cultural, as well as material, of spending their lives and bringing up their families in Ireland.⁶⁷

⁶⁶ John D'Arcy May, p. 185.

⁶⁷ Cited in Anne Chambers, *T.K. Whitaker: Portrait of a Patriot* (Dublin: Doubleday 2014), p. 392.

Chapter 22

Public Policy: The Defining Global Parameters of Society and Science



Cornelius (Con) Patrick Power and Vincent Joseph McBrierty

Abstract This Chapter asserts that the functionality of global networks, facilitated and promoted by innovations in information and communications technology, has generated a disconnect between social and economic relationships, on the one hand, and, on the other hand, civil governance structures at local, nation state, geo-political region, and global levels. Because of widespread and rapid commercialisation and public and private sector market penetration of technological innovations, communications can now be virtually instant in both formal and informal terms and can result in the transfer of resources and in the making of contracts.

There is and can be no effective check on network traffic other than that provided by computer algorithms which can generate calculations, data processing, and even automated reasoning based upon input data. The need for legislative, regulatory, and administrative protocols at levels wider than an individual nation state is a corollary to the global footprint of information and communications technology networks, with its all-pervasive impact on society worldwide. Advances in science now have an all-pervasive impact on the social, economic, political, and cultural organisation and governance structures of society at local, regional, national, trans-national, and global levels, and, indeed, on the life of each individual, of the family, and of every human grouping ... small and large, private and public, voluntary and juridically structured, entrepreneurial and not-for-profit, informal and formal.

Assimilation of scientific advances by society is, *per force*, contingent upon society's capacity and willingness to embrace such an assimilation. Wolff succinctly articulated this point in his seminal philosophical work on ethics and public policy when he said that '*Broadly, then, if large change is to take place, the world needs to be ready for it.*' (J. Wolff, '*Ethics and Public Policy: A Philosophical Inquiry*', Routledge, Oxford, 2011, p. 208). The practical realities of societal and technological developments for enterprises, product and service, private and public, can be judged from major international studies such as the 2019 PwC global survey of

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nearly 1400 CEOs which identified the top ten business risk factors, in order, as follows – over-regulation, policy uncertainty, availability of key skills, trade conflicts, cyber threats, geopolitical uncertainty, protectionism, populism, speed of technological change, and exchange rate volatility. The PwC survey was reported and analysed from a business viewpoint by Dan Holly and Sabine Vollmer in the professional accountancy journal *Financial Management* in May 2019 in the context that Brexit, trade wars, and political unrest are increasingly impacting negatively on global business (D. Holly and S. Vollmer, ‘*Rise in geopolitical threats worries business leaders*’, *Financial Management*, Journal of the Association of International Certified Professional Accountants, comprising the American Institute of Certified Public Accountants (AICPA), and the Chartered Institute of Management Accountants (CIMA) (UK), 16 May 2019, at <https://www.fm-magazine.com/news/2019/may/geopolitical-threats-worry-business-leaders-201920547.html> accessed 27 February 2020).

This Chapter scopes some of the parameters of societal organisation, scientific advances, including in information and communications technology, and spirituality. It concludes that the rapid advances in information and communications technology, with a global footprint, challenge the human capacity for adherence to moral principles in ethical policy decision-making, and require matching governance structures at global level. The issues discussed in this paper are, therefore, fundamental to the evolution and operational delivery of meaningful ethical public policy.

Keywords Global networks · Disconnect · Social and economic relationships · Civil governance structures · Knowledge revolution · Public policy · Ireland · Science · Spirituality

Knowledge Revolution, Policy Challenges, and Management of Change

The Knowledge Revolution Reflecting on the outcome of the relentless growth of scientific understanding across the globe brings to mind the words of W.B. Yeats, spoken in the aftermath of the Easter Rising in Ireland in 1916: ‘*All changed, changed utterly/A terrible beauty is born.*’¹ In light of the recent global economic and financial crises, an assessment of the current approach to societal development is warranted to determine whether or not the trajectory of today’s ‘terrible beauty’ is on the right track. Bertrand Russell, the renowned British philosopher and Nobel laureate (1872–1970), reminded us that history has much guidance to offer in understanding the relationship between new knowledge and the development of societies

¹ W. B. Yeats, ‘*Easter 1916*’, in ‘*The Collected Poems of W.B. Yeats*’, the Franklin Library, Franklin Center, Pennsylvania, 1970. p. 196.

when he asserted that in most important fields, parallels and precedents have been going on for twenty centuries or more and there is no sense in amputating them from our collective memory.² Or will it, yet again, be a case of *Realpolitik* at the expense of ideological, moral and ethical norms?

Throughout history, periodic surges of new knowledge have altered the trajectory of social development, highlighting the close relationship between scientific discovery and the organisation of society. Belief in the duality of body and spirit in any of the various forms promulgated by world religions adds a spiritual dimension to the scope of consideration of societal issues.³ On rare occasions in history, a paradigm shift of major proportions occurred, linking technical innovation intimately to social change: the invention of the alphabet in 1000 BC and the printing press in the fifteenth century AD, were forerunners of today's developments in information technology. In more recent times, new scientific discovery underpinned the industrial revolution of the nineteenth century and, now, some two centuries later, a shift of comparable proportions is underway, whose genesis lies in sustained innovation involving the fusion of a whole new set of knowledge-driven changes right across the spectrum of the scientific, cultural, economic and social domains.

Today's phenomenon is uniquely different from earlier events in that it is truly global as articulated in 1986 by Yasuhiro Nakasone, former Prime Minister of Japan: '*Science and technology have a universality that no political power or ideological creed has even begun to approach. Their relationship with culture and society is all-pervasive in their impact on areas of morality, ethics, religion and even aesthetic sensibility.*'⁴ Nakasone rightly asserted that information technology in the form of electronic media would transform the world into a veritable global village networked by a web of electronic information super-highways, facilitating the creation of a global consciousness along the way. He further postulated that the impact of these developments on societies would be so far-reaching that they might well change the nature of the nation state itself and the way in which it is governed. In that same year, the eminent American industrialist, W.O. Baker, predicted that '*we are now seeing the elegant principles of twentieth-century physical science being combined into operational systems for dramatic advances in economic and social functions. I submit that the physical sciences have moved to a place where they will increasingly stimulate – not just originate but stimulate – large new frontiers of*

²B. Russell, in '*The Dancer not the Dance*', E. Sagarra and M. Sagarra (eds.), Trinity Jameson Quatercentenary Symposium, Trinity College Dublin, May 1992.

³One of the most comprehensive sources of wisdom and guidance on the spiritual dimension of socio-economic development is contained in the 88 encyclicals of Pope Leo XIII (1810–1903) as implied in his statement: '*Neither must it be supposed that the solicitude of the Church is so preoccupied with the spiritual concerns of her children as to neglect their temporal and earthly interests Christian morality, when adequately and completely practised, leads of itself to temporal prosperity.*' Pope Leo XIII, '*Rerum Novarum: Rights and Duties of Capital and Labour*', May 5, 1891, par. 28.

⁴Y. Nakasone, Prime Ministerial Address, in '*Europe/Japan; Futures in Science, Technology and Democracy*', V.J. McBrierty (ed.), Butterworths, London 1986, pp. 5–8.

*technology and engineering.*⁵ These prescient observations are borne out in today's information age, which rapidly developed into a transformation age in which new knowledge and information continue to transform virtually every aspect of daily life, predominantly, the twin revolutions in information technology and biotechnology that might well '*restructure not only economies and societies but our very bodies and minds.*'⁶

Today, both national and global governance and social order are firmly under the spotlight of public attention. Experience of the past has shown that spotlights not only illuminate, they can also blind, as in the blinkered approach to governance that is driven by intransigence, ambition, greed and overall lust for power and even crass incompetence. Over-exposure blurs images and destroys their fine structure. And this is precisely what is happening today. Our vision of the fine structure, namely, the delicacies and subtle nuances of a nation's culture, wellbeing and structural subsidiarity has dimmed and is fast approaching extinction.

Policy Challenges Why is humanity currently experiencing an unprecedented range of global problems that have left few nations unscathed? At the heart of the problem is the rate and scope of change, generating a complexity that far exceeds our ability to deal with it. The profile of global political and cultural change over the last century has witnessed a progression from fascism, through communism to liberalism. The global financial crisis of 2008 challenged the merits of liberalism, stimulating a radical form of nationalism which materialised in 2016, typically, with Donald Trump's election in the United States who adopted a hard-line stance in U.S. relations with other nations. At the same time the destabilising impact of the United Kingdom's proposed exit from the European Union (BREXIT) has threatened not alone the integrity of the United Kingdom itself but the future integrity of the European Union which had achieved remarkable harmony between 28 nations in Europe. Harari argued that the vacuum left by the breakdown in liberalism was tentatively filled by '*nostalgic fantasies about some global past... making America great again and Britain dwelling on past supremacy with "splendid isolation" as a viable policy.*'⁷ O'Toole, an Irish columnist and literary editor with *The Irish Times* newspaper, considered that Britain's membership of the European Union since 1973 was overshadowed by '*the two main ingredients of pleasurable self-pity – a sense of one's own superiority, and a feeling of one unjustly beaten down, [both of which] existed separately. They had not yet been combined in the toxic cocktail that the Brexiteers would convince a majority of their compatriots to swallow in 2016.*'⁸ Elsewhere, profound cultural change was also advocated by Putin in Russia in

⁵W. O. Baker, '*The Physical Sciences as the Basis for Modern Technology*', in '*The Positive Sum Strategy: Harnessing Technology for Economic Growth*', National Academy of Sciences, National Academy Press, Washington D.C., 1986.

⁶Y. N. Harari, '*21 Lessons for the 21st Century*' Jonathan Cape, Penguin, Random House, U.K., 2018, p. 7.

⁷*Ibid.* p. 15.

⁸F. O'Toole, '*Heroic Failure: Brexit and the Politics of Pain*', Head of Zeus, November 2018.

seeking a return to the ancient tsarist glories of the past, and by exploiting the formidable potential of cybernetics,⁹ and indulging in subtle adverse cyber involvement in the affairs of other nations.¹⁰

A further change in the more traditional, hegemonic, unilateral global power scenario has also emerged with the growing multilateral involvement centred in the Indian Basin region which R. Kaplan has cited as the world's pre-eminent energy and trade interstate seaway.¹¹ The main players include India, China - which is on a rapid and sustained growth path - and the United States where their collective interests and influence are progressively beginning to overlap and intersect. The sea lanes in this region, reminiscent of the historical trade routes between east and west, are now used to transport significant trade including a large proportion of the world's energy supplies. The Strait of Malacca in Indonesia linking the Pacific and Indian Oceans is a crucial sea conduit. Kaplan further noted that China's interest reflected *'an economic growth that has propelled it outward in search of markets, materials and, above all, energy. Thirsty for oil, Chinese tankers now ply the waters from the western Pacific, down through the narrow Strait of Malacca, off Indonesia, across the Indian Ocean to the Persian Gulf'*. China has also focussed upon additional pipelines through Myanmar. On the downside, China's growth may become unsustainable in the medium to long term with the environmental abuse of water resources and serious air pollution due to over-industrialisation. The dominance of India is reflected in the fact that about 30% of all trade is handled in Indian Ocean ports, illustrating the region's importance in global maritime enterprise. It remains to be seen whether the confluence of multinational interests, embracing nations of widely different cultures and beliefs, will generate either cooperation or conflict.

This spontaneous level of inter-nation involvement in the Indian Basin is but one aspect of the wider global picture in which nations can no longer pursue a policy of self-determination oblivious of events in the rest of the world. Even within the European Union, the twin systems of the corporate Union *per se* and of each individual sovereign member state, coexist within both legal and political systems, and have given rise to significant strains particularly on the road to achieving the twin goals of Economic & Monetary Union and of Political Union. The up-to-date position is well summarised in an address by Yves Mersch, Member of the Executive Board of the European Central Bank (ECB) speaking about political integration and economic convergence in Monetary Union at a Banking and Corporate event in Munich on 22 November 2018, from which the following points are abstracted:

As far back as 1970, the committee of experts chaired by the then Luxembourg Prime Minister Pierre Werner, which drew up the first meaningful plan for a European monetary

⁹Cybernetics is defined as the field of science concerned with processes of communication and control (especially the comparison of these processes in biological and artificial systems).

¹⁰T. Snyder, *'The Road to Unfreedom: Russia, Europe, America'* Bodley Head.... published by The Bodley Head, Penguin Random House UK, April 2018.

¹¹R. Kaplan, *'Monsoon. The Indian Ocean and the Future of American Power'*, Random House, (2010), pp. 366.

union, stressed that insufficient economic convergence and the absence of a common fiscal policy would give rise to the need for greater economic policy coordination... Later proposals, including the Maastricht Treaty of 1992, unfortunately failed to sufficiently tackle the inherent tensions of a currency without a state... The crisis demonstrated that the euro area is susceptible to negative shocks and that greater economic and political convergence is needed... The euro area is a special construct in which 19 countries share a common currency, but responsibility for their economic and fiscal policies still lies in national hands... Given the current state of our Economic and Monetary Union, further efforts to deepen it through political and economic convergence are clearly indispensable.¹²

The problems are even more challenging with an increasing instability and potential volatility across the globe triggered by many regional and cultural factors, and by the growing threat of cyberwarfare.

Management of Change The more fundamental issue is the management of change itself. Change generates uncertainty and uncertainty generates instability and even fear in the minds of those who face the unknown. While societies continue to be ambivalent about new discoveries, they are nonetheless grateful for major enhancements in the quality of life but remain alarmed and fearful of their negative side effects. Few people today can hope to understand the full scope of complexities created by our rapidly changing world, with no consensus on the way forward. The task is more formidable with the unrelenting rate of change which has created paradoxes at every level of society. *'We are still in the nihilist moment of disillusionment and anger after people have lost faith in the old stories but before they have embraced a new one.'*¹³ New knowledge in itself is not the problem, it is the way in which it is interpreted and implemented; it is, in truth, a double-edged sword which has been wielded without the wisdom of informed judgment, sometimes with deleterious and often unintended consequences.

A first practical step in achieving this goal is to map out a profile of some of the current major dilemmas, recognising that many of these issues have global dimensions requiring global solutions.

- **Bioethics:** New discoveries in biotechnology are truly spectacular and radical. The field of Genetics has revealed the fingerprint of our very being through elucidation of the DNA (Deoxyribonucleic acid) molecule, leading, in turn, to genetic profiling which has provided a deeper understanding of the origin of many diseases and their treatment. Equating the possible threat of a disease with the disease itself, signals a more profound and worrying phenomenon where probability is being rapidly displaced with the reality of the moment: the potential threat to the inherent probabilistic dimension of human society then becomes very real. W. French Anderson, one of the pioneers in the field of biotechnology

¹²The complete text of the speech is given on the website of the ECB: <https://www.ecb.europa.eu/press/key/date/2018/html/ecb.sp181122.en.html>, accessed 27 February 2020.

¹³Ref. 8. p. 18.

also warned against the potential genetic engineering of human beings which might well ‘endanger everything we value - including who and what we are.’¹⁴ G. E. Moore voiced similar concerns at an early stage regarding the development of silicon intelligence to the point where it might well be difficult to distinguish computers from human beings.¹⁵ To date, there has been significant progress in the development of Artificial Intelligence (AI) systems such as biosensors which can convert biological processes into electronic information that can be stored and analysed. They have, thus far, focussed on the creation of ‘super-sophisticated decision-making software’ with the ability to process massive bodies of data to support human decision-making: But not on the creation of machines which can emulate human consciousness with the ability to make independent decisions on a par with humans.^{16,17} Computer-assisted decision-making as used in many diverse areas of society has created a whole new range of ethical issues, as McCormack has pointed out, since AI technology is not an ethically-neutral engineering phenomenon.¹⁸ In 1999, Carey posed a number of questions, specifically relating to biotechnology and bioethics, but which have much wider relevance: ‘*Who will make the crucial decisions about how to exploit these new capabilities? How will society acquire the knowledge and ethical sophistication to make the right choices? Given history, it’s not clear that we will find the right answers.*’¹⁹ Digital dictatorships are indeed a realistic aspect on the horizon.

- *Information and Communications Technology (ICT)*: ICT has radically altered day-to-day life, empowering, but also perhaps endeavouring to influence thought and action, and to control the citizen with instant and readily affordable access to global information in a way that would have defied credibility a mere few decades ago. Not only has it impacted positively on every sector of society, but it has also spawned a whole new manufacturing and services sector with ever-growing employment opportunities. On the downside, it has facilitated the growth of cybercrime in many forms, typically providing a mechanism for the unwarranted and oft-times illegal attacks on the digital economy and invasion of privacy through the misuse of information data banks. The growth of a digital bureaucracy which is replacing person-to-person dialogue in day-to-day transactions has rapidly become a source of frustration for many. At the personal level, there

¹⁴W. French Anderson, ‘A Cure that may cost us ourselves’, Newsweek, Special Issue, Dec. 27-Jan.3, 2000, pp.111–112.

¹⁵G.E. Moore, cited in O. Port, ‘Machines will be smarter than we are’, Business Week, Aug. 30, 1999. p.64.

¹⁶Ref. 8. p. 50.

¹⁷Brandt Dainow website, <http://thinkmetrics.com/wp>

¹⁸C. McCormack, cited in <https://www.rte.ie/eile/brainstorm/2019/0123/1025037-do-you-trust-artificial-intelligence/>

¹⁹J. Carey, Business Week, Aug. 30, 1999. p. 79.

is the danger that new technologies can be so seductive as to leave the user a hostage to its agenda.²⁰

- *The Social Charter and the Workplace*: The most radical feature of the new global economy is the ever-increasing growth of knowledge-based industries where brains have replaced brawn and where new technologies have displaced redundant manpower across the board in order to maintain global competitiveness. The operational and skills profile of the sector has also altered in several respects: the notion of long-term tenure and 'job for life' is progressively becoming a thing of the past, and an over-reliance on algorithms is making significant inroads into traditional methods of assessment of candidates seeking employment. This, in turn, creates a new challenge since '*algorithms have no consciousness, their decisions are not shaped by sensations or emotions, ... and we need to develop new social and economic models, guided by the principle of protecting humans rather than jobs*'.²¹ The role of trade unions and the maintenance of labour rights face radical redefinition, for example, in the face of excessive attrition in manpower levels with the potential erosion of workers' trust and this might well lead even to civil unrest.
- *Selective Globalisation*: Nations large and small, developed and developing, that hope to survive in today's global knowledge economy, like it or not, are all members of the global village in which the rules of the game have markedly changed. The degree to which nations prosper depends in no small measure upon the extent to which they embrace, have the capacity to embrace, or can embrace, this global knowledge economy. The reality is that serious imbalances persist in the way in which knowledge-based economies have benefitted one section of the global community to the exclusion of others through 'selective globalization' both within nations and between nations: the capability is there to address the problem but, to date, the willingness to do so is not. This is particularly evident in the ever-widening gap between rich and poor nations where, paradoxically, global inter-connection has created fragmentation, not solidarity or social and economic cohesion.²² Such a gap is also evident within nations in, for example, the widening gap between incomes in the South East, the North and the West Midlands of England.²³
- *Energy and Natural Resources*: New discoveries have the capacity to stem the sustained wasteful exploitation of natural energy resources as well as environmental pollution such as nuclear fallout and acid rain, all of which have

²⁰ Ref. 8. pp. 266, 267.

²¹ *Ibid.* pp. 36, 37.

²² C. Antonelli, 'The emerging knowledge-based global economy', in Proceedings of the Workshop on 'Information technology and developing priorities: Competing in a Knowledge-based Economy', Economic and Social Commission for Western Asia (ESCWA), UNESCO, Beirut, 15–16 May 2000, pp. 3–4.

²³ <http://home.bt.com/news/uk-news/large-gap-between-incomes-across-country-inequality-and-poverty-study-finds-11364197107894>, accessed 27 February 2020.

diminished rather than enhanced the quality of life on a global scale.²⁴ Acknowledging that the problem is global, and that solutions are necessarily global, it is all the more difficult to reach agreements between nations with different and often conflicting, short-term, interests. It is little wonder then that the current crisis in climate change, soaring greenhouse gas emissions, food and water security, energy, depletion to near extinction of many species of global wildlife, and prolonged economic and financial instability have spread across the globe like a toxic virus. Pat Cox, former President of the European Parliament, in his Opening Keynote Address at the JMB/AMCSS Annual Conference 2019 explored the environmental challenge, its roots and its effects, and reflected on how ‘ecological conversion’ might take shape. He concluded on the note that:

We are sowing the seeds of excessive global warming. The young will reap the whirlwind. The issue of intergenerational equity is another vital aspect of climate justice.²⁵

- *Education*: New knowledge is a benefit; the challenges arise from the way it is created, distributed, interpreted and implemented. Any new approach that ignores the central role of education is sterile if it does not entail a fundamental rethink of the whole approach to pedagogy at all levels, considering the current shift from ‘elite’ to ‘mass’ education. A new teaching and learning paradigm should parallel the current advances in new knowledge, addressing essential elements such as critical thinking, communication, collaboration, creativity, life-skills, and, fundamentally, the ability to adapt to change.²⁶ A further problem is the current policy of prioritising the scientific, technological and entrepreneurial disciplines at the expense of the arts, social sciences and the humanities, thereby ignoring their key role in moderating the implementation of new discoveries. In the same vein, from the perspective of leadership in business, P. T. Harper argued: *‘It may seem curious to some readers that I would put the analysis of literature in the leadership curriculum, but poets and writers have always plumbed the depths of the human condition and their works have yielded important insights into the human psyche. The themes of hubris, evil, treachery, love, deception, and honour have motivated writers and dramatists throughout history, and there is*

²⁴Y. Takeda, in *‘The Dancer not the Dance’*, E. Sagarra and M. Sagarra (eds.), Trinity Jameson Quatercentenary Symposium, Trinity College Dublin, May 1992, pp. 66–74.

²⁵P. Cox, Opening Keynote Address to the 32nd Annual Conference of the Joint Managerial Body and the Association of Management of Catholic Secondary Schools, on the theme *‘Care for our Common Home’*, Killarney, County Kerry, on 1 May 2019.

²⁶See for example, V.J. McBrierty, *‘Education: Historical and Future Perspectives’*, the Inaugural Lecture in the Spring series of Centenary Public Lectures, Mary Immaculate College, Limerick, Ireland (1998); C. N. Davidson, *‘The New Education: How to revolutionise the University to Prepare Students for a World in Flux’*. Basic Books, New York (2017); V.J. McBrierty, *‘Education: Historical and Future Perspectives’*, the Inaugural Lecture in the Spring series of Centenary Public Lectures, Mary Immaculate College, Limerick, Ireland.

*no reason that we cannot learn from these important texts. Literature then should play as a central role in leadership training as it does in the liberal arts.*²⁷

In 2001, the Director General of UNESCO, Koïchiro Matsuura signalled that *'the age of scientific innocence is over ... despite the best of intentions, scientific and technological advances may have unintended, adverse, consequences for human life and human welfare.'*²⁸ The extent of our understanding of life itself, and the available techniques of intervention into human nature, highlight the enormity of the humanitarian and ethical issues involved. As Fushimi remarked in 1986, *'mankind now has God's skills, but not God's wisdom; herein lies the problem.'*²⁹ Matsuura stressed the need to integrate the ethical dimension into the very process of scientific research itself: freedom of research is of real value but, he stressed, it is not omnipotent. A further complication is that the traditional boundaries between disciplines, notably science, medicine, economics, religion, and ethics, are rapidly dissolving, and the pendulum is swinging back to the definition of philosophy as an integrated and holistic study of the fundamental nature of knowledge, reality, and existence, especially when considered as an academic discipline.³⁰ It is no longer possible to focus on one area oblivious of the positive or negative impact on another. This demands a more holistic approach in formulating policy at every level of social and economic interactions, public and private.

Governance in Ireland

The Experience of One Small Nation As with many other nations throughout the world, the last four decades in Ireland have been turbulent in the extreme, with a focus dominantly on the economy, compounded, in turn, by crises in several dependent areas. Ireland's economic development from the foundation of the State in 1922 up to the economic and financial crisis of 2008 is scoped by Power as a background to his forensic analysis of the initial period of Social Partnership from the First National Understanding 1979 to the end of the Programme for Economic and Social Progress (PESP) in 1993. Power, in his book *'Metamorphosis: Lessons from the formative years of the Celtic Tiger 1979-1993'*, suggests 14 lessons of continuing relevance to societal governance, and economic and social development, that

²⁷ P.T. Harper, *'Business Ethics Beyond the Moral Imagination: A Response to Richard Rorty'*, in *'Leadership and Business Ethics'*, G. Flynn (ed.), Springer, 2008, p. 77.

²⁸ K. Matsuura, DG, UNESCO, Opening address, *'Bioethics: International implications'*, Round Table of Ministers of Science, UNESCO, Paris, 23–24 October 2001.

²⁹ K. Fushimi, in Ref. 6, p. 70.

³⁰ Definition of philosophy <https://www.oxfordlearnersdictionaries.com/definition/english/philosophy>, accessed 27 February 2020.

can be learned from this study of the period 1979–1993, based on his direct involvement as a participant in the National Programmes and in a wide range of initiatives as Director of Economic Affairs with the Confederation of Irish Industry (CII, now Ibec).³¹

This Chapter updates the societal governance analysis by reference to some of the major challenges of 2019.

It is conventional to use the annual Gross Domestic Product (GDP) to monitor a nation's economic performance. In 1987, Ireland's economy was near insolvency.³² There followed a period of resurgence, the final stage of which was the so-called Celtic Tiger era, which subsequently troughed in 2008, triggered in the first instance by the collapse of the Lehman Brothers Bank in the United States. The crash was exacerbated by a number of factors: the nature of the short-term borrowings by Irish banks to fund medium-term and long-term lending; the refusal of international banks (mainly German) to roll-over one-year loans; the financial structure of the Eurozone banking itself; and an abject failure of widespread civil governance lorded over by financial institutions, property developers, regulators, external auditors, senior civil servants and politicians. They collectively shared culpability for predictable outcomes whereby the social values of ethics, honesty, civic responsibility and morality were subverted by unbounded materialism and avarice. In short, the nation's patrimony, solvency and sovereignty were wilfully squandered, leaving public and private debt at a staggering level of €80 billion in 2008, representing, virtually overnight, a transformation of debt levels from millions of euro to billions of euro.

The consequences were crippling for the citizen in a number of respects³³: First, the numbers of Ireland's designated poor increased sharply with the traditionally poorer sectors complemented by a 'new poor' of those formerly self-employed and previously far removed from the poverty trap, but who do not have access to the

³¹ C. Power, *Metamorphosis: Lessons from the formative years of the Celtic Tiger 1979–1993*, Oak Tree Press, Cork, Ireland, 2009.

³² Gross Domestic Product (GDP) is a universally accepted monitor of the economic health of a nation: It measures the total monetary value of goods and services produced over a given period. A nation's debt is normally quoted as a percentage of GDP. The health of a nation is best described in terms of the nation's GDP and Debt-to-GDP ratio shown in parenthesis. In 1995, Ireland's annual GDP was €M52 (75%) which had grown progressively to €B135 (33.2%) in 2001 and to €B188 (42.4%) in 2008, before the global economic bubble burst. In the recovery in Phase II, the nation's GDP rose to €B296 (68%) in 2017, indicating that Ireland's economy has been developing at a reasonably steady rate. The Government debt profile was the following: In the six-year period before the crash (2001–2007) the nation's debt was, on average, €B40–47, or 24–33% of GDP. After the crash, the nation's debt grew from €B79.6 (42.4%GDP) in 2008 to a peak of €B215.3 (119.4%GDP) in 2013 before decreasing to €B201.3 (68%GDP) in 2017. While the GDP was growing steadily, the increase in the national debt level increased dramatically after the crash, a debt which incurred a significant drain on the nation's income in interest payments.

³³ V.J. McBrierty and G. O'Hanlon, *The World in Crisis: The Response of the Church*, 50th Intl. Eucharistic Congress, Dublin 10–17 June 2012. 466–476.

conventional State's welfare support system. Second, at that time, the fiscal crisis triggered large scale chronic unemployment and under-employment, with little sign of relief on the immediate horizon. Ireland's favourable welfare system and salaries which had been inflated during the Celtic Tiger era, continued to attract a high influx of workers from Eastern Europe and elsewhere. Third, a burden of crippling negative equity was created by a housing market downturn, in tandem with a loss of savings and pensions when the financial markets collapsed. For many, the prospect of a life-long burden of personal debt extending to the next generation was fuelled by the progressive erosion of disposable income due to the draconian measures imposed by government to redress the nation's indebtedness: in effect, private banking debt was nationalised, passing the burden of the economic and financial crash from bankers who made rash commercial decisions on to the Irish taxpayer. Many of the younger generation caught in this negative equity trap considered themselves to be a lost generation. Furthermore, the fact that mortgage debt became a tradable commodity where mortgage portfolios could be traded away from the primary lender to those without any sense of responsibility or compassion for the embattled borrower, added a further dimension to the situation. In addition, the high expectations formed during the Celtic Tiger era regarding quality of life (such as costly leisure activities and holidays) carried over to the current more stringent economic environment which cannot comfortably support this level of expectation. In consequence, many of the younger generation typically found it difficult, if not impossible, to adapt and begin to save the necessary funds to access the property ladder. Furthermore, a culture of 'entitlement' emerged which posed the question: What is the maximum to which I am entitled, by way of resource transfer to me from my neighbour (the taxpayer)? The question is not what is equitable, based on an objective assessment of need.

From 2008 onwards, there was a slow but positive return to a more vibrant economy as shown in a progressively increasing annual GDP. Nonetheless, the nation's debt level remained uncomfortably high over the recovery period, peaking at €215 billion in 2013 before falling again to €201 billion in 2017, albeit offset somewhat by an improvement in the nation's GDP. This debt continues to impose a significant drain on the nation's income in interest payments: in March, 2018, Ireland was paying out €16.5 million a day in interest costs to service its national debt, which amounted to the fourth largest spending category for the Government behind Social Protection, Health and Education.³⁴ While unemployment dropped by more than ten percentage points from its post-crisis peak of 15.9% to 5.1%, which is some 2.5%

³⁴C. O'Kelly, National Treasure Management Agency, *The Irish Times*, March 2018.

lower than the European average, major future investment will have to be directed to three areas which are currently in crisis: housing,³⁵ health care,³⁶ and policing.³⁷

Civil Governance and Ethical Policy Making

Returning to the more general issues, recall again at the outset, that policy implications are at their most challenging with the growth of new knowledge continually outstripping the ability to manage it. Civil governance is clearly central to the task of framing sensible and balanced policy which involves weaving the mosaic of interconnected, disparate and transient inputs into a cohesive strategy to the benefit of society as a whole. This, in turn, is necessarily predicated on an understanding of the nature of these inputs and on bridging the cultural differences of the various

³⁵ The lack of affordable housing, mostly in the urban areas, is a persistent social challenge which has thus far defeated the government's attempts to address the following issues: the supply of houses, particularly social housing which is wholly inadequate; house prices are once more on the increase both in absolute terms and relative to disposable income; the excessive domestic rental costs in 2018 for the decreasing number of available rental properties; and the blight on society of the number of homeless people which has grown dramatically over recent years. The recurring problem of student accommodation is also at a critical level. There is no feasible solution on the horizon thus far.

³⁶ The provision of health care in Ireland is a problem of even greater proportions, as indicated by a plethora of indicators: Fundamental flaws in the service provided have been revealed in medical litigation which is on the increase, highlighted most recently by the cervical cancer screening scandal; in the closure of wards due to insufficient front-line staff and over-crowded A&E facilities; and, in consequence, in the number of patients on trolleys and chairs awaiting admission to hospitals which continue to increase to a level of nearly 8000 in the month of September, 2018. To place this in context, a survey of the provision of healthcare in Europe revealed that Ireland's waiting times were among the worst in Europe. The report stated: *'If countries with limited means can achieve virtual absence of waiting lists – what excuse can there be for countries such as Ireland, the UK, Sweden or Norway to keep having waiting list problems? It seems that waiting times for healthcare services are a mental condition affecting healthcare administrators and professionals rather than a scarcity of resources problem'*. Health Consumer Powerhouse: *Euro Health Consumer Index 2018: Report*, A. Björnberg and A. Y. Phang, Health Consumer Powerhouse 2019, ISBN 978-91-980687-5-7.

³⁷ As Ireland's police force, An Garda Síochána, enters its second centenary, a comprehensive review of the force recognised the profoundly different circumstances that now prevail in modern Ireland, namely, the increasingly international nature of the country and its economy [which] brings with it greater exposure to international criminal activity, including organised crime, drug trafficking, human trafficking, industrial espionage, cybercrime, and to the kind of terrorism seen in many other countries in recent years, including suicide and vehicle attacks. The Garda themselves are acutely conscious of the need for change, first to stem any further instances of internal corruption in the force and, second, to address growing day-to-day crime, such as aggravated assault and burglary, notably in rural Ireland, where there is little or no visible Garda presence on the streets. Problems are compounded by a flawed bail system, as is evident in the number of crimes committed by individuals out on bail. These issues should be redressed as a first step in any future, more comprehensive strategy.

contributors. While economic development is at the heart of policy formation, it is not an end in itself; rather it is a vitally necessary means which enables society to achieve the wider goals of the welfare of the people. The earlier dominance of capitalism which had grown into dogma must now be transformed into a joint participation of economists, with scientists and technologists who understand the full import of new knowledge and the social scientists and humanists who can interpret the social implications. It is then the job of the technocrats to massage these inputs into coherent advice for informed decision-making by politicians, recognising that feasibility is not synonymous with acceptability. History again cautions that systemic advances in civilization, such as we are witnessing today, will be subverted unless they are grounded in a set of principles that reflect fundamental human values and beliefs.

In the practical application of these ideals, several hurdles must be crossed. First, societies in flux, as history repeatedly shows, evolve new systems which are created and managed by those who have the power to do so. Today, more than any other period in history, power is synonymous with access to new knowledge and information and the ability to use it, as perceived by Francis Bacon some 400 years ago: *'For even knowledge itself is power'*,³⁸ and power is often sought after for many nefarious reasons. Accordingly, selective access to this power base will require sensitive monitoring and management. Second, as Saul explained in his treatise on Voltaire, the twentieth century came to a close in the grip of blind reason where adherence to the so-called 'rational approach' was stifling the ability to challenge conventional wisdom as well as curtailing the flexibility to be unconventional in addressing the problems and challenges of modern society³⁹: *'Politicians who become devotees of technocratic logic also become prisoners of conventional solutions,'* he explained. He further argued that a virtual dictatorship of vocabulary, or buzz words, had been created by those who work the system, words that buzzed with self-importance but lacked the sting of insight. Saul considered that *'these mythological words come to replace thought [and] are the modern equivalent of the intellectual void'*. Third, 'a culture of compliance' evolved in the unrelenting drive towards increased public intervention and scrutiny, by the adoption of a market-oriented ethic and an evolving herd mentality.⁴⁰ The consequent dilution of academic autonomy in the governance of universities is one example of an imposed requirement to conform, whereby public accountability increasingly equated to state intervention (*vide infra*). It is somewhat paradoxical that in one of the greatest eras of creativity and enlightenment, society, and education in particular, are rapidly succumbing to this culture of compliance which is displacing intellectual creativity and independence.⁴¹ Fourth, in framing policy, technocrats and policy-makers are

³⁸ Francis Bacon, *Nam et ipsa scientia potestas est* (for even knowledge itself is power), *Meditationes Sacrae: De Heresibus*, 1597.

³⁹ J.R. Saul, *'Voltaire's Bastards: The Dictatorship of Reason in the West'*, Vintage Books, New York, 1992.

⁴⁰ P. Nyberg, *'Misjudging Risk: Causes of the Systematic Banking Crisis in Ireland,'* Report of the Commission of Investigation into the Banking Sector in Ireland, March 2011.

⁴¹ F. Millar, *'Master of the Universities'*, *Times Educational Supplement*, May 20, 1994, p. 23.

single-mindedly focused on measurement and quantification. But how can societies, which are in effect living organisms, be quantified? How can qualities like morality, creativity, scholarship, or excellence be adequately measured? In practice the tendency is to measure the quantifiable and ignore what remains in a way that distorts reality and impoverishes policy. Carter and Williams added support to this view in alluding to *'analytical over-simplification and the predilection of policy-makers for a precision which progressively becomes unreal resulting from the common habit of removing complications for the sake of clarity of analysis. ... Unfortunately, the complications and uncertainties are part of the problem.'*⁴²

Addressing these symptoms in any meaningful way hinges on ethics. As we have seen, the 'Celtic Tiger' experience in Ireland demonstrated the consequences of unethical practices. This poignant lesson of recent history pinpoints the need for a moral, ethically based approach, respecting the philosophical, religious and cultural diversity within society. The vast corpus of literature on ethics, emanating primarily from the works of Aristotle, Socrates and Plato, reveals the exceedingly controversial nature of ethical issues. The question arises as to the relevance of a traditional approach to ethics and whether it offers any guidance in addressing the current challenges of unabated technological progress, most notably in the area of cybernetics. While it has been difficult, if not impossible, to conceive of a universal code of ethics, experience does identify the recurring theme that ethical behaviour is driven from within. Harper, mindful of the views of Karl Marx that *'behaviour merely complying with or following external rules [was] alienated and inauthentic,'*⁴³ maintained in the business context that *'ethics must be characterised as something internal to the decision-making process to be something that is of interest to leaders rather than just philosophers and theologians.'*⁴⁴ Flynn developed the theme further in discussing 'the recovery of virtue' in business: *'Ethics plays an important role in the creation of a business environment in which virtues and values are brought into relationship for the good of all. In this regard, character, and particularly the character of leaders, is paramount.'*⁴⁵ Several of the earlier conclusions as to the way forward in the business sector have much wider relevance in society: (i) There is no special code of business ethics: the current business case should be abandoned in order to be re-invented. (ii) *'Being ethical is primarily a matter of being a person of good character, with virtues, emotions values and practical intelligence to match.'*⁴⁶ (iii) Moral education underpins the ethics of leadership and should be the

⁴² C.F. Carter and B.R. Williams, *Investment in Innovation*, Oxford, Oxford University Press, 1958.

⁴³ Karl Marx, 'Alienated Labor' in 'Karl Marx: Selected Writings', David McLellan (ed.), Oxford University Press, 1977. pp. 85–94.

⁴⁴ Ref. 28. p. 60.

⁴⁵ G. Flynn, 'The Virtuous Manager: A Vision for Leadership in Business', in 'Leadership and Business Ethics', G. Flynn (ed.), Springer, 2008. pp. 39–56.

⁴⁶ E. M. Hartmann, 'Socratic Questions and Aristotelian Answers' in 'Leadership and Business Ethics', G. Flynn (ed.), Springer, 2008. p. 98.

*'intellectual basis for a leadership model where any given business leader embodies the nexus of innovation in thought and innovation in practice.'*⁴⁷

(iv) *'It is the moral imagination that spans the distance between management and leadership. But it is critical thought that activates the moral imagination.'*⁴⁸ (v)

According to Aristotle, virtue and character are more important than principles, believing that *'ethics does not offer the level of certainty that we find elsewhere [but] that ethics is available to us all, that correct views about ethics are generally compatible with common sense. ... ethics is the art of living well.'*⁴⁹

Adopting these attributes in business will, no doubt, go a long way in dealing with the problems that underpinned the demise of the Celtic Tiger.

Science and Knowledge Equity

The fact that scientific discovery is at the heart of the knowledge economy has conferred on education, particularly higher education with its significant research involvement, an enhanced strategic and political dimension in serving the wider community. With direct access to funding from the European research programmes, Ireland has become an integral part of a sophisticated global research network. However, for some time now the cherished view of the university as a community of specialists, working at the forefront of knowledge in a wide spectrum of disciplines in the humanities as well as the sciences, has been challenged in today's era of mass education and short-term market-driven, increasingly narrow specialisation, coupled with inevitable escalating costs. The OECD noted as far back as 1993 that the shift from elite to mass education impacted on the way in which research is distributed and concentrated, and even questioned the use of research as a pedagogical tool. This has imposed conflicting demands on universities that cannot be accommodated without compromising their core values of learning, scholarship, independent research, intellectual curiosity, teaching through research, and academic freedom. If the quality of higher education is to be maintained, their age-old ethos must be sustained in the face of the blinkered short-term philosophy of cost-cutting and unnecessarily narrow bureaucratic intrusion by government, albeit in the interests of accountability and transparency which are themselves laudable goals. But the manner of their implementation has led to a proliferation of documentation and an erosion of valuable academic research time - a case of paralysis by analysis - coupled with this evolving culture of conformity and compliance.⁵⁰ Furthermore, the continuing threat to basic research, as opposed to applied research,

⁴⁷ Ref. 28. p. 59.

⁴⁸ *Ibid.* p. 77.

⁴⁹ Ref 47. p. 82.

⁵⁰ V.J. McBrierty, *'Higher Education into the 21st Century: Science, Technology and the Universities'*, R. M. Jones memorial Lecture, the Queen's University of Belfast, 14 October 1995. Published by QUB, 1997, and referenced in *Intellectual Property: A Social Paradox*, V. J. McBrierty

is unwarranted because experience within the research community has put to rest the myth that the pursuit of intellectual curiosity through basic research cannot lead to useful applied development. As stressed earlier, 'The artificial dichotomy between basic and applied research in shaping science policy ignores the holistic, interconnected nature of research and its notorious unpredictability. It also ignores the extent to which basic and applied research can rapidly converge'.⁵¹ Nor should prescriptive government strategies partition academic researchers into intellectual straitjackets that limit their potential contribution across the full spectrum of research and technological development. The universities continue to suffer, in our thematic metaphor, from the blindness created by the spotlight of public attention.

Knowledge as a Form of Equity Seeking a solution to these two conflicting stances has led to the universities themselves generating additional funding by directing their own entrepreneurial flair in expanding their portfolio of contract research and by exploiting the fruits of their intellectual property arising out of academic research. This has entailed significant effort in bridging the cultural gap between the universities and the industrial sector. The new approach recognised that knowledge, viewed as a form of equity comparable to finance-based equity, is itself a valuable commodity. A national knowledge equity base has emerged with the collective inputs of training and education, indigenous applied research, basic research and imported research. Beneficial outputs include research as attractors of foreign multinationals, the creation of new industries (for example, campus companies and spin-off companies), essential research support for indigenous industry and foreign industrial partners, direct job creation within the third level research sector funded from contract research, and revenue from patents and royalties. This development has been termed a 'techno-academic paradigm', the analogue of the more familiar 'techno-economic paradigm', which asserts academic knowledge to be a major determinant of industrial change.⁵² The elements of the paradigm are fourfold: the need for an integrated approach to the creation of a 'national knowledge equity base'; the effective use of this equity base through stronger university/industry links; a more enlightened approach to intellectual property; and the need to address the human side of technological development through a more holistic approach that incorporates the arts, humanities and social sciences into policies for exploiting science and technological development, as advocated by Harper.⁵³ After

and R. P. Kinsella, *Studies, An Irish Quarterly Review*, Volume 87, Number 345, Spring 1998, pp. 57–68.

⁵¹ Ref. 27.

⁵² V. J. McBrierty and R.P. Kinsella, *Ireland and the Knowledge Economy: The New Techno-Academic Paradigm*, Oak Tree Press, Dublin, 1998; see also, R.P. Kinsella and V.J. McBrierty, 'Campus Companies and the Emerging Techno-academic Paradigm: the Irish Experience', *Technovation - The International Journal of Technological Innovation, Entrepreneurship and Technology Management* (Elsevier Publishing, Amsterdam and Global), Volume 17, Issue 5, May 1997, pp. 245–251.

⁵³ Ref 28, p. 77.

all, societal acceptance is the final arbiter when it comes to the implementation of new discovery.

Major additional financial support has also grown through the philanthropic generosity of large business and other organisational interests within Ireland and beyond, complementing the achievements within the third level institutions, in order to ease the burden on the public purse. That said, the pressures on the academic community continue to rise.

The Human Psyche

The quest to understand the world around us, and our very *raison d'être*, is fundamental to our human psyche and is a major influencing factor in the continuing evolution of the ethical and moral culture in any human society. The pursuit of that curiosity reveals two uncomfortable defining characteristics of our world, namely, probability and uncertainty which are especially difficult to deal with but which are, nevertheless, as much an essential part of our environment and our whole being as the precision of the universal laws that accurately define the motion of the planets. In the literary world, Keats elegantly alluded to the wondrous complexities of life, with the beauty of creation bound up with the mystery of creation, the unsolved wonders, the unknown, the uncertainty that is a fundamental aspect of human life – in short, unfathomed complexity linked to perfect order: *'The excellence of every Art is its intensity, capable of making all disagreeables evaporate, from their being in close relationship with beauty and truth. When a man is capable of being in uncertainties, mysteries, doubts, without any irritable reaching after fact or reason that the sense of Beauty overcomes every other consideration, or rather obliterates all consideration.'*⁵⁴ Keats's sense of the wondrous complexities of life is pre-eminently experienced by the practitioners in science who work at the interface of new knowledge and discovery. Scientific discovery is perceived as but one manifestation of creativity, akin to poetry, or literature, or music: it is the formal language of the workings of the manifest world around us. Just like the creative writer or composer, scientists develop a heightened sense of appreciation of the beauty of nature through the truths revealed in scientific experimentation and elegant mathematical analyses which are just as beautiful as the lines of a well-crafted poem or sonata. They work at the very edge of creation itself and see at first hand the mysteries of the world around them progressively melting away. In similar vein, a famous sculptor was once asked how he created such a beautiful masterpiece; he replied, *'I chipped away all the unnecessary bits.'* When all the complexities of life are chipped away in the mind's eye, one is left with the beauty of creation, and it is

⁵⁴ J. Keats, *'Selected Poems and Letters: George and Thomas Keats'*, 21 Dec. 1817', D. Bush (ed.), Harvard Univ., Houghton Mifflin Co., Boston, Mass. (1959). p. 261.

this approach that provides a meaningful way to address the complex, often seemingly intractable, questions facing societies today.

Science and the Origins of Life The reality today is that there remains a wide spectrum of conflicting views among scientists as to the source of creation: Richard Dawkins⁵⁵ and Lewis Wolpert⁵⁶ are foremost in using science to argue against the existence of God in a most dogmatic and trenchant way. At the other end of the spectrum there are those scientists who see the enormity of the impact of new discovery on humanity as the fruits of a God-given intelligence and curiosity that rise above the human failings and weaknesses that permeate society at large, both secular and religious. A great scientist of the nineteenth century noted: *'Into science generally, and eminently into astronomy, imagination enters as an essential element Be not surprised that there should exist an analogy, and that not faint nor distant, between the workings of the poetical and scientific imagination....With all the real differences between Poetry and Science, there exists notwithstanding, a strong resemblance between them; in the power which both possess to lift the mind above the dull stir of earth ...'*⁵⁷ Albert Einstein reminded us that science itself cannot have all the answers, convinced that *'it would be possible to describe everything scientifically, but it would make no sense; it would be without meaning, as if you described a Beethoven symphony as a variation of wave pressure.'*⁵⁸ Another Nobel physicist of the last century, Isidor Isaac Rabi, considered that doing great physics was walking in the path of God. His research was the forerunner of Magnetic Resonance Imaging (MRI) which has greatly empowered modern diagnostic medicine. As he observed the behaviour of a single nucleus in a magnetic field revealing its innermost secrets, he remarked *'it just charmed me'*, and added, *'each one, I suppose, seeks God in his own way'*. Throughout his life he judged the research achievements of his students according to the simple benchmark: *'Does it bring you nearer to God?'*⁵⁹ That self-same question might well be asked of research today in pondering the ethical dilemmas that occasionally arise.

Many other Nobel Laureates in science also professed a strong belief in God. In Einstein's case it was a personal, non-judgmental God: *'My religion consists of a humble admiration of the illimitable superior spirit who reveals himself in the slight details we are able to perceive with our frail and feeble mind'*.⁶⁰ Charles Townes, co-inventor of the laser, who was awarded the Nobel Prize in Physics and the Templeton Prize for research that linked science and religion, believed deeply in an

⁵⁵ Richard Dawkins, <https://www.richarddawkins.net/2018/12/if-science-and-religion-are-at-war-science-is-winning/>, accessed 27 February 2020.

⁵⁶ L. Wolpert, *'Six Impossible things before Breakfast'*, Faber and Faber, 2007.

⁵⁷ An article of the journal *Romanticism and Victorianism on the Net*, <https://id.erudit.org/iderudit/038763ar>, William Rowan Hamilton and the Poetry of Science. Dec. 15, 2009.

⁵⁸ A. Calaprice, *'The Quotable Einstein'*, Princeton University Press, 1996.

⁵⁹ *'Isidor Isaac Rabi: Walking the Path of God'*, Physics World, 01 Nov 1999, pp. 27–31.

⁶⁰ Ref. 59.

inspirational God.⁶¹ The Reverend John Polkinghorne, Anglican priest, eminent nuclear physicist and theologian, a world authority who viewed science and theology as ‘intellectual cousins’.⁶² Professor Ernest Walton who lived his deep Methodist faith through his work as researcher and teacher, believed that our present state of knowledge could not do without faith, but added the rider that belief should continue to be subject to examination: ‘*We must pay God the compliment of studying his work of art A refusal to use our intelligence honestly is an act of contempt for Him who gave us that intelligence.*’⁶³ Walton further argued, like Einstein, that the human mind is not satisfied with material things alone and firmly believed that science and religion were not in conflict, reiterating that scientists seek truth, Christians seek truth, and in the end truth cannot conflict truth, as was the position taken by a number of Popes from Pius IX onwards.⁶⁴ Former Prime Minister of the United Kingdom, Tony Blair, reminded us of a further dimension in that ‘science does not replace moral judgement, it extends the bounds within which moral judgments are exercised.’⁶⁵

Spirituality in a Secular World: In the spiritual context, addressing the imponderable questions that cannot be answered with human logic introduces the whole dimension of Faith, Spirituality, and a belief in God. ‘Faith’ and ‘Hope’, to which should be added ‘Trust’, are the basic underpinnings of Christian belief. But it is not a blind faith, it is a faith which is conditioned by a growing appreciation of God’s creation, supported historically by the sacred scriptures. One preacher summed up the significance of faith as follows: human reasoning brings you to the door of the church; your trust in your deliberations on the spiritual dimension, namely faith, brings you into the sanctuary.

Today, faith is a hostage to fortune in a pervasive secular society, and, thus far, the Church has not fared all that well in this new order. The late Reverend John Patterson, Dean of Christ Church Cathedral, Dublin, gave an insightful account of

⁶¹ https://www.berkeley.edu/news/media/releases/2005/06/17_townes.shtml, accessed 27 February 2020.

⁶² J. Polkinghorne, ‘*Belief in God in an Age of Science*’, Yale University Press, 2003.

⁶³ V.J. McBrierty, ‘*Memorial Discourse*’ in TCD, Trinity Monday 16 April 2012.

⁶⁴ Pius IX who convened the First Vatican Council stated: ‘*Even though faith is above reason, there can never be any real disagreement between faith and reason since it is the same God who reveals the mysteries and infuses faith, and who has endowed the human mind with the light of reason ... God cannot deny himself, nor can truth ever be in opposition to truth.*’ This was reaffirmed by Pope Leo XIII in his encyclical *Providentissimus Deus*: ‘*... nothing can be proved either by physical science or archaeology which can really contradict the scriptures ... truth cannot contradict truth, and [if not observed to be the case] we may be sure that some mistake has been made either in the interpretation of words, or in the polemical discussion itself; and if no such mistake has been detected, we must then suspend judgement for the time being.*’ In the context of Darwin’s theory of evolution, Pope Pius XII acknowledged of the existence of evolutionary biology in his encyclical *Humani Genaris* and, in 1996, Pope Saint John Paul II went one step further in recognising that the theory of evolution as more than a hypothesis in a lecture to the Pontifical Academy of Sciences entitled ‘*Truth Cannot Contradict Truth*’. See: *Evolution and the Vatican*: http://scientificity.net/wiki/Evolution_and_the_Vatican, accessed 27 February 2020.

⁶⁵ Prime Minister Tony Blair’s discourse on ethics to the Royal Society in London, 23 May 2002.

the problems and challenges facing the modern church in noting that *'the secularisation of the 20th century has been a startling loss of what we assumed to be Christian civilization Today churchgoing is a minority occupation, scepticism is widespread, and neither politics nor business allow themselves to be signally influenced by church teaching*. He also alluded to the dangers of 'situation ethics' which promoted a so-called post-modernist viewpoint, namely, *'What I believe is right for me'* without referring to any long-established means of guidance: *'If God becomes no more than human values then, deep down, this will not be Christianity, but secular humanism. The continuity of Christianity can only continue when it demonstrates the sovereignty of God.'*⁶⁶

It is also the case that many disengaged Christians are deeply disturbed by self-destructing imperfections and inappropriate behaviour in the Church throughout its history, incorporating as it does human frailty as well as human strength. But they fail to appreciate that when those, in whatever role or profession, do not adhere to the high ideals of their beliefs, it does not mean that the beliefs, in themselves, are at fault. Nevertheless, it is difficult for the church, under these circumstances, to act as honest broker in the science/spirituality debate.

The relationship between science and spirituality, from the religious viewpoint, has been formally analysed in depth. A comprehensive review by W.A. Holst identified four dynamics: science over religion; religion over science; science and religion functioning as separate but equal realities; and religion and science as creatively integrated.⁶⁷ He concluded that, on the basis of all knowledge ultimately being one, he favoured the latter dynamic. Sobosan argued that if religious belief is to remain intellectually persuasive, it will need to form a mutually respectful partnership with the leading theories and findings of science: *'We need to wed the best from both disciplines into a coherent vision of the cosmos by allowing theology to incorporate science into its doctrines while refusing to diminish the contribution theology can make to science.'*⁶⁸

In support of this approach, Einstein argued that *'science can only be created by those who are thoroughly imbued with the aspiration towards truth and understanding. This source of feeling, however, springs from the sphere of religion.'* which underpinned his famous statement, *'Science without religion is lame, religion without science is blind.'*⁶⁹ This view echoes Plato's claim that *'that real knowledge is not about the world of space and time at all. What is truly real, the object of genuine knowledge is the eternal Form'*.⁷⁰ This dynamic continues to gain momentum.

⁶⁶ John Patterson, private communication.

⁶⁷ W.A. Holst, *Anglican Journal*, Nov. 1, 1999, <https://www.anglicanjournal.com/science-and-religion-allies-or-adversaries-580/>, accessed 27 February 2020.

⁶⁸ *Ibid.* p. 7.

⁶⁹ Kang Na, *'Science and Religion: Albert Einstein'*, paper published online by Kang Na, Associate Professor of Religion, Westminster College, New Wilmington, PA 16172, USA <http://www.westminster.edu/staff/nak/courses/Einstein%20Sci%20%26%20Rel.pdf>, accessed 27 February 2020.

⁷⁰ Ref. 47. p. 91.

Conclusion

The role of science and technology and the vision for the future are well encapsulated in the words of W. O. Baker, and eminent President of Bell Labs and an advisor on scientific matters to five U.S. Presidents⁷¹:

Indeed, we are now seeing the centuries-old pattern of practical progress in physical mechanization of science widening toward what we hope can be a technology in support of how we know.

Likewise, the application of science for the benefit of man through industry and government increasingly depend on the conception and design of large interacting systems, in which many of the elegant uses of computers that we have sampled must be combined in the most ingenious ways: far from seeing a plateau or decline in the rate of progress in a golden age of science and technology. I see boundless opportunities through the use of logic machine systems to resolve the puzzles of cosmology, of life, and of the society of man. And, above all, I see that automation, once viewed as an ominous, Frankenstein like, threat to personalism and humaneness, turns out to augment especially the bold individualism of new thought.

Aspects of globalisation, facilitated by rapid advances in science and technology, and the consequential impact on all aspects of society have been recognised by some world leaders, including, from a Christian viewpoint, by Joseph Ratzinger, who served as Pope Benedict XVI from 19 April 2005 to 28 February 2013 and who stated in his Encyclical Letter *Caritas in Veritate (Charity in Truth)* in 2009: ‘*In the face of the unrelenting growth of global interdependence, there is a strongly felt need, even in the midst of a global recession, for a reform of the United Nations Organisation, and likewise of economic institutions and international finance, so that the concept of the family of nations can acquire real teeth.*’⁷² Ratzinger advocated adherence to moral principles in ethical policy decision-making, and to underpin the long-term sustainability of specific technical solutions. It is against the background of such profound and prescient statements that this Chapter has endeavoured to scope some of the parameters of societal organisation, scientific advances, including in information and communications technology, and spirituality.

The task ahead is indeed a formidable one, of tailoring the advances in science and technology to benefit society. Bertrand Russell’s advice on learning the lessons of history remains valid, recognising that the critical step in solving a problem is first to define the nature of the problem. This has been the central theme of this discourse with Science as the generator of new knowledge, Ethics and the Humanities defining its beneficial application, and Spirituality being the core element of our human psyche dealing with the imponderables of life. It is comforting to know that the one invariant in our rapidly changing world is human nature itself which has changed little over time and, hopefully, should remain so even in the new era of cybernetics.

⁷¹ W O Baker, DAEDALUS, Proceedings of the American Academy of Arts and Sciences, 99, No 4 (1970), pp. 1088–1120.

⁷² Pope Benedict XVI, ‘*Caritas in Veritate (Charity in Truth)*’, Encyclical Letter, 29 June 2009, published 7 July 2009.

Chapter 23

Alternative Business Ethics: A Challenge for Leadership



Donal Dorr

Abstract In this chapter, I shall argue that to give a specialised and different meaning to words like ‘ethics’ and ‘leadership’ in the business world damages both human society as a whole and businesspeople themselves. Section one examines the *motivation* which businesspeople may have for behaving ethically. Section two considers the modern Western business world as an integral *system* which is hard to change. Section three examines an *alternative* model of business, namely, the one which is operative in the street-markets of Asia and Africa. In the fourth section, I shall suggest how the present system may be changed by being *re-inserted* more seamlessly into the wider world of human interrelationships. In the final section, I shall examine the extent to which *spirituality* and religions may play a part in bringing about this change.

Keywords Alternative business ethics/model of business · Challenge for leadership · The modern western world · Asia · Africa · Spirituality and religions

Nowadays there is a widespread tacit assumption that the ‘business world’ has its own accepted practices, and its own code of behaviour, largely independent of the norms which apply in most other human relationships. Similarly, we hear the phrase ‘business leaders’ used in a way which implies that becoming a leader in business is simply a matter of making a great deal of money.¹ This suggests that the modern

¹ Sean Ruth cites R. Barker as maintaining that ‘leadership has been reduced to slogans and become equated with economic success and the manipulation of people’ – Sean Ruth, *Leadership and Liberation: A Psychological Approach*, London and New York, Routledge, 2006, p. 51. Ruth himself (*ibid.* p. 55) suggests a broader context for this debasement of the concept of leadership when he says that even in public and national leadership the ‘focus is on doing whatever it takes to get ahead.’

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business world has its own ethos and ethics—cut off to some extent from the rest of the wider world of everyday human interactions.

In this chapter, I shall argue that to give a specialised and different meaning to words like ‘ethics’ and ‘leadership’ in the business world damages both human society as a whole and businesspeople themselves. In the first section, I shall examine the *motivation* which businesspeople may have for behaving ethically. In the second section I shall go on to look at the modern Western business world as an integral *system* which is hard to change. In the third section, I shall examine an *alternative* model of business, namely, the one which is operative in the street-markets of Asia and Africa. In the fourth section, I shall suggest how the present system may be changed by being *re-inserted* more seamlessly into the wider world of human interrelationships. In the final section, I shall examine the extent to which *spirituality* and religions may play a part in bringing about this change.

Section I: Motivation for Ethical Behaviour

At the present time in our Western world it is widely assumed that the most effective way—perhaps the only way—to ensure that business is governed by a code of ethics is to impose such a code by law. ‘Should’ then comes to refer to little more than obeying the law. At this point the experience and concept of guilt tends to become increasingly irrelevant. More and more, the motive for acting ethically is simply *fear*—the fear of being caught and of having to pay the prescribed penalty. This in turn has led to the emergence of a corps of business lawyers. One aspect of their work is to ensure that the business operates strictly within the letter of the law. But an equally important task of these lawyers is to find loopholes in the law which will allow the business which employs them to gain a competitive advantage, until such time as the loophole is plugged.

Fear of punishment is a very inadequate incentive for truly moral behaviour. It leads one to seek opportunistically for ways of avoiding penalties. To remedy this situation, it seems best at first to focus mainly, not on negative emotions such as fear and guilt, but on more positive feelings.

Other Motivations

The reality is that most people—including businesspeople—are not motivated solely, or even primarily, by narrow self-interest. A little reflection on our own experience shows that many, if not most, of our actions are inspired by less selfish motives. The most obvious example is of course the enormous sacrifices which parents make for their children. But we can think also of the generosity which leads people to help their friends and to give extravagant gifts to their lovers. Very many people freely and even joyfully devote time, energy, and resources to developing

their local community or to serving the poor. Some are willing to dedicate their whole lives to a noble cause—and perhaps even to die for it.

We may not hear much about the word ‘virtue’ nowadays. But most of us are quite virtuous in practice for much of the time. We enjoy being generous. We find fulfilment in helping others. We feel good when we resist the temptation to deceive or manipulate people and act instead with honesty and personal integrity. A surprising number of people derive satisfaction from giving leadership by modelling a better, more generous, way of doing things. We are even attracted to the idea of acting nobly—though we may be too bashful to admit it even to ourselves.

Furthermore, there is no sharp distinction in practice between a concern for our own interests and the virtues which lead us to reach out to others. We tend to see the members of our families as in some sense an extension of ourselves. Most people spontaneously experience a sense of solidarity with their friends; and this sense of solidarity extends also to their neighbours and to the local community (except in situations where people live in middle-class or upper-class urban anonymity). We do not have to reflect very deeply to realise that our own welfare is dependent on the welfare of our country and even of the world as a whole. The majority of people have now come to accept—at least in principle—that care for our environment and for the Earth is inextricably linked to care for ourselves.

It is true that we in the West no longer have such a strong sense of being embedded in a group as people had in the past—or as most of the peoples of Asia and Africa have even today. The individualism which has come to the fore in the Western world in recent centuries has led us to think in terms of our own interests, of ‘looking after Number One’. But human nature has not changed fundamentally; so, it may be that this new individualism operates more at the level in which we learn to *think* of ourselves than in ways we *act* in everyday life.

The Business World

There is no doubt, however, that what has been created in the Western world over the past couple of hundred years is an understanding of business which assumes that self-interest is the principal motive for action. That is the fundamental reason why the sphere of business activity is taken to be a more-or-less distinct ‘world’, governed by a different set of norms and a different ethics from the world of other everyday relationships.

The result is that, in this business world, activities which might otherwise be seen as springing from generosity tend nowadays to be articulated and evaluated in terms of ‘public relations’. Suppose a businessperson decides to build a swimming pool for the local community. This action may be the result of a generous impulse, or a feeling of solidarity, or a sense of compassion, or even, perhaps, a feeling of guilt and a desire to make reparation to the community for environmental damage. On the other hand, the decision to build the pool may be a calculated gesture to create goodwill in the area, in order to promote the long-term self-interest and profits of

the businessperson. There may even be a mixture of all of these motives. However, in terms of the dominant ethos of the business world, the building of the swimming pool is simply a PR exercise. It is evaluated in terms of the extent to which it contributes to the self-interest of the benefactor. The other possible motivations are seen as irrelevant within this 'world'.

This mercenary evaluation is not confined to the donor. The ethos of the business world has also percolated into the local community who may well see the action not as an act of generosity but as a PR exercise which has been squeezed out of the donor. The business ethos tends to lead people to interpret such actions as a kind of mutual manipulation.

What I am saying about 'the businessperson' refers primarily to those who own the business and to those whose task is directly promoting the business, for instance, by being engaged in its selling or buying activities. There are many others employed in industry or services who are not directly involved in the interface between the business and other businesses or its interface with the outside world. These employees are much less likely to have their value system corroded by the modern 'business ethic'; they may be just getting on with their work, relating to those around them in a more human manner. However, a competitive and unscrupulous business ethic may percolate to a greater or lesser extent into the whole workforce of a particular factory or other enterprise.

The best way to provide a long-term remedy for the dehumanising effects of the business ethos is to encourage people in the business world and in the wider world to become aware of how artificial and how damaging it is to make a sharp distinction between the ethics of business and the ethics of our other everyday human interactions. Many management consultants and an increasing number of business leaders have woken up to this reality. They are now placing great emphasis on how important it is to establish warm personal relationships with their workers, suppliers, customers or clients, and even their competitors. However, it is no easy task to put this general principle into practice in everyday business relationships. The difficulty stems mainly from the fact that the present-day business ethos is an integral part of a closed system. Individual businesspeople may feel trapped within this system, finding it almost impervious to change.

Section II: The Business World as an Integral System

The present model of the business world did not just suddenly appear out of nowhere. It was constructed piece by piece by millions of people over the past two or three centuries. It now forms an interlocking system where each component reinforces the fabric of the whole.

The Economic Aspect: 'Efficiency'

From the beginning, a key role has been played by entrepreneurs who devised new ways of cutting down on costs which they have to pay in making or selling goods or in providing services of all kinds. In some cases, these reductions in costs came from the discovery of genuinely more efficient ways of doing things. But in most cases the new 'efficiency' was not a matter of reducing the real costs but only of *spreading* the costs and thus lessening those immediate costs which the entrepreneur had to pay. Where 'the efficiency' involves moving the work to a country where workers are badly paid, the savings made by the entrepreneur are made at the cost of the workers. In situations where hand work is replaced by machinery powered by cheap energy, the money saved will be paid by future generations when cheap energy sources are no longer available. In cases where the apparent efficiencies involve more pollution of air, land, or water, some of the cost of the product has to be paid by those who now have to live in the degraded environment. Furthermore, in almost all cases these new 'efficiencies' come at the cost of greater pressure on workers—the loss of moments of relaxation in between bouts of work, and anxiety about failure to meet deadlines or work quotas.

It would be too easy to lay all the blame on the entrepreneurs. We the customers and clients also have to take our share of responsibility for the generation of this new world of business. If we choose to save a little money by buying our clothes in cut-price stores like Wal-Mart, we are putting pressure on competing outlets to adopt the same insensitive policies which have made Wal-Mart notorious: sourcing their goods in Third World sweat-shops and paying little heed (at least until quite recently) to environmental issues. If those of us who invest in company shares—either directly or through our pension funds—seek only the highest returns on our money instead of engaging in what is called 'responsible investment', then we too are supporting the exploitative system.

Political Factors

We must take responsibility for what we do or fail to do not just in our role as customers but also as citizens. We have failed to insist strongly enough that our governments and supranational agencies enact laws and rules which set strict moral limits on the power of big business. Most of us have neglected to inform ourselves adequately of the policies which our governments are insisting on, in our name, in international bodies such as the International Monetary Fund and the World Trade Organisation.

The economic fabric of the modern business world is supported by political and quasi-political structures and practices. Powerful corporations ensure that their interests are protected by giving legal and under-the-table support to politicians. Organisations representing business or agri-business employ lobbyists to defend

and promote their interests. Business tycoons employ clever lawyers to devise legal mechanisms which safeguard their interests. Economic advisors are employed by corporations to work out policies which favour the rich and powerful. Most of the mass media depend on advertising revenue. So they are slow to offer a serious challenge to the interests of big business. At the international level, the wealthy nations use their power to impose rules of trade which favour the interests of transnational corporations; and the result is the further disadvantaging of countries that are weak and poor.

Ideological Support

On top of all this, there is the ideological superstructure which justifies this whole system and makes it seem inevitable and normal. Mainstream professors of economics read Adam Smith selectively, ignoring the moral concern which was an important part of his position. They teach their students about the so-called immutable 'laws of economics'. These 'laws' are said to apply, 'all else being equal'. But economists often choose to ignore those elements which are by no means equal aspects of situations which are a function not of strict economics but of political power. Furthermore, there seems to be a selective blindness on the part of most mainstream economic consultants and academics. They choose to ignore the findings of those academic economists who have shown that economic decisions are frequently made not simply on the basis of hard economic facts; in practice such decisions are influenced also by interpersonal relationships and values which are not economic in the narrow sense.²

What is particularly significant is the ever-increasing close links between politicians and academic economists. Anne Norton describes the situation in the USA where key government advisors are drawn from the top members of research foundations funded by wealthy pressure groups; and where these advisors slip seamlessly back into these foundations when they have completed their work for government.³ There are times when government policies on economics and the environment are just carbon copies of the policies devised in these partisan foundations and then proposed by the lobbyists of corporations which are engaged in gross economic or environmental exploitation.

Behind the economic theory which underpins present-day economic practice lies an individualistic, deterministic, and empirical philosophy which goes back a long way. Four centuries ago Thomas Hobbes explained the world in terms of a ruthless struggle for personal survival and self-interest. Since his time there has been a

²Benedetto Gui (2000), 'Beyond Transactions: On the Interpersonal Dimension of Economic Reality', *Annals of Public and Cooperative Economics* 71: 2 (June 2000): 139–170; Bruno Frey (1998), *Not Just for the Money: An Economic Theory of Personal Motivation*, Edward Elgar, Cheltenham UK, and Northampton MA, USA.

³Anne Norton (2004), *Leo Strauss and the Politics of American Empire*, New Haven, Yale.

wealth of psychological and sociological research which, by indicating the complexity of human motivation, has shown that the Hobbesian view is simplistic and inadequate. But all this seems to be ignored by most mainstream economists and economic consultants—except of course where the new psychological and sociological knowledge is cleverly used in devising advertising and PR campaigns. Many of the philosophers of economics seem to be still stuck in a world as seen through the eyes of Hobbes. What they add to the individualism of Hobbes is merely a crudely simplified conception of Darwin's concept of evolution: the survival of the fittest.

The result of this is that the so-called experts have constructed a theory of economics which is individualistic, behaviourist, and deterministic. A popularised version of this economic theory has been widely accepted above all by business tycoons and the top management of big corporations, but also to a considerable extent by politicians and by the wider public. This helps to explain how 'the business world' has become hived off from everyday life and has developed an ethos and a set of standards and practices which are greatly at odds with how most people wish to live their lives.

Section III: An Alternative Business World

The most difficult challenge which has to be faced by those who find the modern Western business world inhuman and grossly immoral is the apparent impregnability and inevitability of the present business ethos. Thus, it can be both enlightening and encouraging to realise that there is an alternative style of doing business—one which continues to exist in the narrow spaces where the dominant model has not yet taken over. In this section I propose to outline some key features of this alternative system, drawing mainly on my personal experience.

Anybody who has spent some time shopping in the open-air markets of Asia or Africa soon becomes aware that buying and selling there are governed by very different norms from those of the Western business world. It is important not to romanticise this alternative system. There is no doubt that a central feature of this market world is the need and desire to buy or sell the goods at 'a good price'. This much it has in common with the other system. But alongside this strictly economic value there are other values which seem to be equally important.

Respect is a value which must be taken very seriously when one comes to buy something at the market stall. If the seller thinks that my only concern as a potential buyer is to beat him down to the last cent, or if he feels insulted by my arrogance or brusqueness, then the whole transaction may fall through. If I have no interest in the seller as a person but am concerned only with the object I wish to buy, the seller will quickly be aware of my attitude and will then reciprocate it by treating me as object—perhaps an 'easy mark', somebody who can be exploited. If, on the other hand, I show some respect and delicacy in the way I approach the whole transaction,

if I take time to talk to the seller and admire the goods, then the other values which are normal in this situation begin to come into play.

Sellers in these public markets are generally interested in establishing a personal relationship with the customer. If the buyer's response is positive, seller and buyer can go on to engage in the subtle game of bargaining. Playing that game successfully cannot be defined simply in purely economic terms. Buyer and seller must end up not only agreeing on the price but also respecting each other, perhaps even liking each other—or at least open to the possibility of engaging in further transactions. If the seller experiences the buyer as a good customer, one who may return again and again in future, then the buyer may be offered an exceptionally good bargain. If the buyer develops a liking for the seller, it is quite likely that she will pay more than she would be willing to pay the next-door seller for the same item. Furthermore, there are special occasions when traders are willing to sell for a far lower price than usual, for instance, if the buyer is the first customer of the day or the last customer in the evening.

If my mentality as a buyer is entirely mercenary and calculating I may interpret the special offers and all the other nuances of the bargaining in narrowly economic terms. In that case I have missed much of the point. I am like a golfer whose only interest is in winning and who scarcely adverts to the enjoyment of the game. If, on the other hand, I am able to enter willingly into this bargaining game, I will know that 'success' has a much broader definition. It includes the exhilaration of wrestling with the seller, making use of various acceptable ploys, but never insulting the seller or trying to manipulate or exploit him or her. All this means that we have established a truly interpersonal relationship—at least in some degree. At best, we have become good friends. And this friendship is quite compatible with a high degree of shrewd worldly wisdom. Neither of us is naïve enough to imagine that the other is just a generous benefactor; each of us knows that the other is looking for the best available price.⁴

In the world of the street-market both the buyer and the seller operate on the basis of a whole variety of mixed motives. This means that the buyer-seller relationship is quite similar to most other interpersonal relationships of daily life. That is the key point: that the business world has not been hived off from the rest of our everyday world. There is no assumption that the activity of buying and selling is governed by different norms and operated on the basis of entirely different values. Precisely because it has such a central role in everyday life it is considered vital that it be permeated by those values which are the mark of the human person and of the civilised society.

⁴A very similar system applied to much of the buying and selling which took place in my village in the West of Ireland when I was a child; it governed everything from selling a cow at the cattle-fair to buying a pair of boots in a local shop.

Section IV: A Way Forward

It would be quite unrealistic to imagine that all business in our world today could be conducted in the way street-markets are run. But the mere fact that two such systems co-exist calls into question the inevitability which so often seems to be the mark of the modern system. It can be challenged and changed—but not easily, because it is an economic system which is underpinned by powerful political and ideological forces. Because each component in the system supports the others, any effective challenge to it must come at all three levels—the economic, the political and the ideological. And the challenges at these three levels must interlock and reinforce each other.

The Economic Level

At the economic level there is already a solid basis for challenging the narrow view that ‘the bottom line’ is the only economic value that really matters. Increasingly economists, management consultants and businesspeople have come to recognise the importance of what are called ‘soft values’ alongside the ‘hard’ economic values of profitability and efficiency. For instance, if there is a congenial atmosphere in the workplace and good relationships between managers and workers, and between the workers themselves, productivity is likely to improve.⁵ Again, it is vitally important for business people of all kinds and for those who provide professional services to cultivate good long-term friendly relationships with their customers or clients. Furthermore, companies have found it well worthwhile to provide recreational amenities for their employees and also for the local communities where their factories or offices are situated. Finally, an increasing number of companies have begun to take action on the basis of what is called ‘an environmental audit’. This means that when they are planning their strategies, they take account of the ecological damage that may be involved and do their best to minimise it or compensate for it. In this way they earn credit from their clients and the wider public.

Of course, all these actions may be interpreted within a narrow economic viewpoint as concessions made in the interests of ensuring longer-term profitability. Even activities which in the past would have been seen as high-minded philanthropy are nowadays evaluated as PR projects shrewdly calculated to enhance the profile of the company. Nevertheless, when all the ‘soft values’ I have listed are taken seriously they have already begun to undermine the narrow view.

This softening of the narrow and ‘hard-nosed’ economic approach becomes even more evident when the business world begins to take account of another vitally important ‘soft value’, namely, creativity. The Taylorist model of economic activity

⁵Cf. Margaret Benefiel (2005), *Soul at Work: Spiritual Leadership in Organizations*, Dublin, Veritas; and New York, Seabury Books, 35.

encouraged owners and managers to think of workers in mechanistic terms, reducing their work as far as possible to purely routine actions. But it is now recognized that work is carried out much more efficiently when the creativity of workers and managers is fostered by working in free-flowing teams where there are good interpersonal relationships. Unfortunately, however, such teamwork exists only in rather specialised situations.⁶

The Political Level

This re-thinking of economic values cannot on its own bring about the major change of approach which is involved in re-humanising the business world. It needs to be supplemented and supported by firm political action at national and international levels.

Already there are indications of what needs to be done and of what is realistically possible. Some striking examples are to be found in relation to environmental issues. The UN 'Convention on the Law of the Sea', worked out between 1973 and 1982, put significant limits to the uncontrolled exploitation of the sea-bed which had been taking place.⁷ At the national level, most countries now have environmental protection agencies to monitor and limit the ways in which business enterprises are allowed to affect the ecology of the region. Of course, these agencies can be rendered ineffective if governments are subservient to the interests of big business such as oil companies; but that only shows the importance of having a high level of political and environmental awareness among the general public.

Long before the environmental issue came to the fore, people became concerned about the monopoly position of some big companies in relation to certain vital goods and services. The resultant political pressure forced governments in most countries to enact laws limiting the extent to which private companies can buy out competitors in order to gain a monopoly. Here too, the governmental agencies charged with monitoring such activities can be corrupted or rendered spineless; once again that shows the need for greater vigilance by the citizens.

'Transparency' is still a buzzword. People were shocked when some of the more murky activities of business enterprises were exposed. As a result, governments,

⁶Cf. Timothy James Bowman (2004), *Spirituality at Work: an Exploratory Sociological Investigation of the Ford Motor Company* unpublished doctoral thesis of the London School of Economics and Political Science (cited with the permission of the author). For a more extended account of Bowman's research see Donal Dorr (2007), *Faith at Work: A Spirituality of Leadership*, Collegeville, Minnesota, Liturgical Press, 56–59; the European edition of this book was published in 2006 under the title *A Spirituality of Leadership: Inspiration, Empowerment, Intuition and Discernment* (Dublin, Columba Press) and the page reference there is 68–70.

⁷See www.un.org/Depts/los/convention_agreements/convention_overview_convention.htm. Accessed 24 January 2020.

acting under pressure from concerned citizens, have enacted laws which seek to ensure that companies have some degree of accountability to the wider public.

Equally important but less successful—so far at least—is the development of international trade unions or supra-national federations of national trade unions. If those who have taken on this agenda can make real progress towards the internationalisation of the trade union movement, this will play a crucial role in responding to the exploitation of workers, which is one of the worst effects of globalisation.

Many concerned businesspeople feel trapped in a ‘dog-eat-dog’ system which seems to compel them to engage in practices which they would prefer to avoid. Most of the exploitative and ecologically damaging practices engaged in at present by business corporations are experienced by them as ‘necessary’. They know that their competitors are engaged in these practices and they fear that if they do not do likewise, they will ‘go under’. If, however, these practices were outlawed on an international level—and if there were effective ways of monitoring and enforcing the laws—the company executives might be quite relieved to know that their companies can survive and even thrive without engaging in this kind of exploitation.

It is not entirely unrealistic, then, to envisage a whole variety of international conventions being negotiated under the auspices of the UN, and enforced universally, which would eliminate or minimise some of the present exploitative practices. For instance:

- (a) Severe curbs could be put on the extent to which transnational companies are allowed to benefit from making use of tax havens.
- (b) A small tax (some variant of ‘the Tobin Tax’) could be put on speculative financial dealings.
- (c) The export of toxic materials to poor countries could be severely controlled.
- (d) Much more severe limits could be put on the opportunity of businesspeople to cheat people of their investments, or of money they are owed, by declaring a company bankrupt, while the owner walks away with the money.
- (e) The unionisation of labour and the development of a truly effective international trade union movement could be fostered through binding international covenants. This could eliminate, or at least slow down, ‘the race to the bottom’ in relation to workers’ pay and working conditions.
- (f) International agreements could ensure that all countries impose a tax on the use of energy. This would lessen the wasteful depletion of scarce energy resources and would reduce unemployment by making automation more costly.

These examples of actual and possible changes give some indication of what is achievable—at least in principle. National governments and international agencies have it in their power to enact a whole framework of laws, treaties and conventions governing all aspects of business activity. Such a set of rules, if wisely designed and conscientiously enforced, could prevent most of the current gross abuses and exploitation without unduly restricting the entrepreneurial spirit. To those who claim that this is unrealistic, one can only respond: ‘where there is a will there is a way’.

‘Where there’s a will ...’ There’s the rub. Little or no real will to change the system is to be found in any of the Western governments today. It is quite unrealistic

to expect that effective change of such an established system will be brought about by government action unless the politicians are pushed into action by very determined pressure from the ground up.

In the absence of leadership from the top, it is only through the emergence of effective leadership from below that there is any hope of bringing about the radical changes which would re-humanise the business world. The aims of such leadership would be twofold. Firstly, to educate people to become more aware of what is actually taking place and of its damaging and corrupting effects. Secondly, to mobilise very large numbers of citizens to exert pressure on politicians to change the legal system which underpins the unjust and inhuman practices of the business world.

Changes in the legal system will not automatically change the attitudes of the people governed by the laws. But such changes can at least close off most of the more obvious loopholes and can minimize the opportunities which those engaged in business have to exploit other people or the environment. In this way, legal changes can make it less likely that the business system itself will corrupt people by seeming to 'force' them to take advantage of others.

The Cultural and Ideological Level

However, even large-scale mobilisation for legal changes is not sufficient. For what has to be changed is not just a set of laws but a whole mindset—a complex of taken-for-granted and almost unquestioned assumptions in relation to what is right or wrong, acceptable or unacceptable, in business practice. For this reason, it is necessary for us to work to change not just the laws but the mindset which lies behind them. This can be addressed from two complementary angles. On the one hand, the public at large can be educated to realise that the present system is not 'set in stone'; a real alternative is possible. On the other hand, those who work 'at the coalface' of the business world can be encouraged to move towards a kind of conversion—a quite radical change of priorities in the values underpinning their business transactions.

The difficulties in bringing about change have been well spelled out by Noreena Hertz.⁸ Nevertheless, neither aspect of the task is impossible. We can find some fragile seeds of hope in the present situation. On the one hand, there are striking examples of how large sections of the general public are no longer willing to tolerate certain environmental abuses. Strong public pressure has been put on companies and governments in relation to some high-profile environmental issues such as whaling, dumping at sea, and safeguarding the Alaskan habitat. On the other hand, within the business world a small but significant number of people are engaged in a serious search for a more human way of doing business. These relatively minor

⁸Noreena Hertz, (2001), *The Silent Takeover: Global Capitalism and the Death of Democracy*, London, Heinemann, 80–8, 154–5, 195.

successes may give us hope that, given the right kind of leadership, real changes can be brought about.

Leadership

In my 2007 book *Faith at Work: A Spirituality of Leadership*, I described a variety of ways in which leadership can be exercised. I wrote there about empowering leadership, nudging leadership, and inspiring leadership.⁹ In the present situation, there is an obvious need for leadership through an *empowerment* of people to take responsibility for what is done in their name by politicians and officials. Need, too, for the gentle, persuasive *nudging* mode of leadership which can sometimes be more effective in bringing about change than attempts to push people in directions which they are not yet ready to take. But, most of all, there is a crying need for *inspirational* leadership—for the kind of creative actions which catch people's imagination, and for the transparency and raw courage which can convince others of one's sincerity. A key aspect of this inspirational leadership is the gift of communication—the power to touch the hearts and minds of millions of people, even in situations where most of the mass media is controlled by those who are opposed to change. However, this must be combined with the organisational ability which enables true leaders to mobilise people without manipulating them.

Those who give leadership must resign themselves to working for slow incremental changes in the system and in the mindsets, which underpin the system. At the same time, they are entitled to hope for an occasional sudden breakthrough. It is not difficult to find instances of such breakthroughs. But leaders who work to change the system must also be prepared for occasional setbacks, such as the appointment by the present US administration to key positions in the World Bank and the UN, of men who strongly resist the kind of changes advocated here.

Section V: A Role for Spirituality and Religion

Thus far, I have been focussing mainly on *what kind* of changes are called for and *how* changes might be brought about. But we must not forget the more important issue of *why* such changes are desirable. This is where spirituality and religion come into the picture. I believe that most people act—at times at least—on the basis of some spirituality, however inadequate or implicit it may be. Even though some are reluctant to use the word 'spirituality', the majority of people have some explicit or

⁹ Donal Dorr (2007), *Faith at Work: A Spirituality of Leadership*, 73–91; (in the European edition of this book the page reference is 87–105).

implicit vision of life which lies behind their more generous or less selfish actions and attitudes; and this is what I have in mind when I speak of spirituality.

I understand the word 'spirituality' in a very broad sense. One aspect of it refers to ethical issues such as our relationships of respect, trust, forgiveness and love for others; our desire for personal integrity and transparency; and our concern for social justice and for the environment. Another aspect has to do with our search for inner peace and serenity, the letting in of an awareness of fragility and vulnerability, and perhaps a feeling of harmony and oneness with nature. A third aspect of spirituality has to do with our vision of the world and our sense of our own personal calling in life—perhaps our destiny. This may or may not be linked to a more or less explicitly articulated notion of some benevolent power beyond the world or within it; a power with which one may perhaps have a personal relationship, a sense of being guided and cared for; an ultimate source of hope and of the energy to continue on when the more obvious supports are no longer present.¹⁰ A fully rounded spirituality should, I believe, include all of these aspects, preferably in a fairly explicit form. In practice, however, quite a lot of people take little account of some aspects and focus their attention on others.

Such an integral spirituality gives one a range of purposes and values which are immensely richer and more humanly fulfilling than the ones which lie behind the modern Western approach to business. Within that broad vision, profitability or 'the bottom line' undoubtedly remains important—but as a means rather than as an end in itself.

The various religions may be seen as articulations of spirituality, as spiritual traditions which can be passed on from one generation to the next. Each of these traditions generally includes a set of beliefs, a pattern of expected moral behaviour, a set of symbols and rituals, and some system of leadership or ministry.¹¹

At their best, authentic spirituality and the various rich spiritual traditions or religions offer a quite radical alternative to the dominant values and disvalues of the modern business world. But to what extent *in practice* do individuals or communities experience their spirituality or religion as calling them to challenge the present business ethos, and to work to transform it into an ethos that is more just and more humane? To what extent does it nourish their courage to devote themselves to the task, and their endurance to survive and grow in the midst of the struggle and the pain which it will involve? There is no universal answer to these questions, since the answers vary from one place to another, from one time-period to another, and from one person to another.

¹⁰ See my more extended treatment of spirituality in Donal Dorr (2004), *Time for a Change: A Fresh Look at Spirituality, Sexuality, Globalisation and the Church*, Dublin, Columba Press, 13–56.

¹¹ *Ibid.* 57–64.

Different Situations, Different Attitudes

At the present time it is clear that, in some sectors of the business community in the United States, it is acceptable to give public visibility, on the fringes of the business world, to a loosely non-denominational version of Christianity which has a faintly evangelical tone. This seems to offer many businesspeople a considerable degree of spiritual nourishment. The significance and value of this type of religion should not be played down. For, over and above the peace of mind and sense of security which it offers, it also puts people in touch in some degree with a long and strong tradition of personal morality which goes back to the Founding Fathers of the USA. However, it must be said that this version of Christianity offers little or no serious challenge to the present dominant business ethos. Indeed, it even supports that ethos by the very fact that it does not challenge it explicitly or effectively.

In other sectors of the business community in the USA, and more particularly in Europe, most businesspeople would object to an invocation in their workplace of any formal religion. But there are some people in these areas who are open, in varying degrees, to a rather more generic approach to spirituality. Nowadays there is a growing number of business consultants whose repertoire includes exercises and practices which are either explicitly or implicitly 'spiritual' in nature. Some of them are mainly concerned with the fostering of creativity and of people's intuitive powers. The purpose of others is to help managers and workers cope with stress by developing an inner peace. Others again set out to generate an atmosphere of respect and cooperation in the workplace.¹²

In these various ways the 'spiritual' practices help people to break out, to some extent, of the dominant business ethos. So, they must be welcomed as important contributions towards re-humanising the business world. But very few go so far as to challenge the present business model explicitly.¹³ I note in passing that enthusiasm for these various elements of spirituality tends to be more evident among management consultants than among the businesspeople who are their clients. This is perhaps because for the consultants the 'bottom line' pressures may be less immediate; and the consultants have probably had a broader range of experience and are more up-to-date on developments in the field of management theory.

¹² For a helpful summary of various stages of personal and corporate growth in spirituality see Sue Howard and David Welbourn (2004), *The Spirit at Work Phenomenon*, London, Azure, 164–5.

¹³ See my extended treatment of the different levels of spirituality in, Donal Dorr (2002), 'Bringing Ethics and Spirituality into Business' 195–213 of Pontifical Council for Justice and Peace, *Work as the Key to the Social Question: The Great Social and Economic Transformations of the Subjective Dimension of Work*, Vatican City, Libreria Editrice Vaticana.

Working with Businesspeople

As I mentioned earlier, there exists within the business world a small but significant number of people who are seriously engaged in searching for a more human way of doing business. These are people who do not want to confine their spirituality to the private sphere; they see it as also very relevant to the business world. Margaret Benefiel's book gives an interesting account of the combined business and spiritual journeys of several of these people.¹⁴ Some of them have opted for one of other of the mainstream religions. Others are rather more eclectic in drawing on a variety of traditions for spiritual nourishment.

There is no way in which a spirituality can be imposed on businesspeople, even on those who are most open to the spiritual. They must choose one they find relevant to their situation and their issues. They may adopt some existing spiritual tradition to which they are attracted. Alternatively, they may work out their own spirituality, drawing, to a greater or lesser extent, on various religious or spiritual traditions. At present most of those who feel the need for an explicit spirituality seem to combine these two approaches.

In this situation I think it is important that Christian leaders and theologians use language and symbols which are intelligible and attractive to people immersed in the business world. I have the impression that the Christian vision and value-system is often presented in a way that many businesspeople find somewhat irrelevant to the specifically business aspects of their lives. And some Christian leaders and preachers give support in areas where challenge is called for and pose a challenge in matters that are less important.

My own interest at present, as a theologian and as a consultant/resource-person, is not so much in finding ways to express the Christian message in more relevant language; I think there is a prior task which I must undertake first. It is one of listening—being open to notice the seeds and blossoms of authentic spirituality which are already present in people and in their worlds. My aim in this listening is to uncover what Paulo Freire calls the generative themes and issues which are stirring in people's hearts and minds.

Freire pointed out that effective leadership and movement towards change can come about only when one is able to touch into the deep concerns and desires in the hearts of people.¹⁵ His main interest was in raising the consciousness of poor and marginalized people. But his insight about the importance of finding generative issues can be applied equally to businesspeople. They too can be inspired to work for quite radical change, once they draw on the energy attached to issues that are 'generative' for *them*. For many business people today a truly generative issue is an exploration of their personal spirituality. It provides a context in which they can

¹⁴ Benefiel (2005), *Soul at Work*.

¹⁵ Paulo Freire (1985), *Education for Critical Consciousness* (revised edition), London, Sheed and Ward.

listen to the ‘still small voice’ of conscience, which had previously gone partly unheard because its demands had seemed unrealistic.

Frameworks for Change

I sometimes use a workshop called ‘Frameworks for Change’ which can be a powerful and life-changing experience for business people who are deeply committed to the search for a rich and meaningful spirituality.¹⁶ The experience of those of us who use this ‘tool’ is that it enables participants to explore the different dimensions and levels of a rounded spirituality, rather than limiting themselves to just one aspect such as the need for inner peace.

The first priority in this workshop is to create a safe space in which the participants can take the risk of baring their souls. If the atmosphere is right, they will be willing to drop the mask of assurance which the ethos of the business world tends to evoke. They no longer feel that they have to ‘put a good face on things’ and to pretend that ‘everything is under control’. Then they can share openly about their own personal difficulties and hesitations. Among the issues and questions which emerge are concerns about the quality of the relationships among the workforce, the pressures under which they and their employees are working, the ethos of the business as a whole, and the role and effects of their particular business in the wider world.

The ‘Frameworks for Change’ workshop is designed in such a way that in its early stages the participants have the opportunity to explore very personal issues such as their hunger for a spirituality of personal authenticity and integrity. What often emerges is a willingness to show their vulnerability. This can be the beginning of a new openness to the questioning and the qualms of conscience which are a vital part of spirituality. Listening, sharing, and supporting each other, the participants break out of the shell of isolation and silence which allowed little opportunity for them to express their doubts about the so-called iron laws of economics and the ethos of the business world.

The Frameworks process then leads the participants on to explore the aspects of their spirituality which have to do with cooperation and teamwork. They can address difficulties which are blocking team members from working together creatively and with mutual respect. Hopefully, they may find ways in which management structures and practices can foster these values.

There are two further stages in the workshop. The first of these offers the participants the opportunity to explore spirituality issues related to the overall purpose and structure of their business organization. The final stage invites them to look at their

¹⁶ See <http://www.innerlinks.com/frameworks>. Accessed 24 January 2020.

enterprise in the light of still wider issues of spirituality, such as cultural diversity, ecological sensitivity, social justice and patriarchy.¹⁷

The key point, however, is to stay with the experience of the participants, helping them to explore and articulate the elements of spirituality which are already present within them—perhaps in a latent or implicit way. The facilitator should not try to push them on to what he or she may see as a more authentic or advanced type of spirituality. A number of the issues I have just mentioned may be ‘a bridge too far’ for some businesspeople. If they are not yet ready for such a sophisticated and intense workshop, it is better to work with them at a level where they feel safe and are more at ease—while gently inviting and nudging them to take the risks involved in going deeper.

For me as a theologian it is important to be patient, trusting that the Spirit is already at work in the secret places of people’s hearts. When working in a participative way with groups it seems better not to present them at once with a fully worked-out Christian system of beliefs and values. To do so may cause them to feel that it is being imposed on them from outside. I believe that, if I trust the inner guidance of the Spirit in those who are sincerely searching for an authentic spirituality, their inner wisdom will eventually find an echo in the message of Jesus. At that point there may be room for a more explicit presentation of Christian teaching. But that may take a long time. In the meantime, the priority is to water the seeds.

Conclusion

The task of humanising the business world is one of the major challenges of our time. I have suggested that this task needs to be approached at two levels. On the one hand, it is important to work with those members of the business community who are open to the possibility of finding an alternative style of doing business—one that operates on the basis of a richer set of values than those which are dominant at present. On the other hand, there is need to educate the wider public, making them more aware of the harm being done by the present system and of the possibility of change. This can lead on to having them exert strong and consistent pressure on ‘the powers that be’ to introduce legislative changes which can go a long way towards ensuring that business is conducted in a more just, respectful and humane manner. A holistic spirituality can provide valuable insight about the kind of changes that are required. It can also offer inspiration and energy to those who work for change.

¹⁷ For a fuller account of this workshop see Donal Dorr, ‘Bringing Ethics and Spirituality into Business’ 206–212.

Chapter 24

Implementing Corporate Social Responsibility Initiatives – A Change Approach



Johan Coetsee, Henrieta Hamilton Skurak, and Patrick C. Flood

Abstract Creating sustainable organisational change is difficult. It is estimated that between 60% and 70% of all change initiatives fail to reach their objectives, achieve only partial success, or in the worst-case scenario, make the situation worse. It seems that despite the numerous change models, approaches and methodologies available in the literature, leaders do not fully appreciate what is required in guiding their organisations through change. Putting it differently, leaders continue to lack a clear understanding of change, its antecedents, its processes or the ability to engage employees in change initiatives. This chapter will not consider the different types of corporate social responsibility (CSR) organisational activities or CSR strategy formulation, but will view CSR as a change process i.e. how to implement CSR activities using a change management lens.

Keywords Sustainable organisational change · CSR strategy formulation · Change · Change approach · Shared change vision · Change readiness · Successful implementation

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Introduction

Organisations today find it difficult to manage and adapt to technological developments, globalisation, and the deregulation of markets, which have resulted in increased environmental complexity (Rafferty et al. 2013). Furthermore, it is expected of organisations today to take responsibility for the way their operations impact societies and the natural environment i.e. to act responsibly. Marrewijk and Werre (2003, p. 97) state in this regard that “organisations need to demonstrate the inclusion of social and environmental concerns in business operations and in interactions with stakeholders”. This means that organisations need to consider social, economic and environmental realities and view the organisation systemically i.e. an awareness that the organisation operates in a broader context, interacts and collaborates with numerous internal and external stakeholders. Organisations therefore, need to demonstrate a continuing commitment to behave ethically, contribute to the environment, invest in social and economic development and willingly communicate with stakeholders (Dahlsrud 2008). These Corporate Socially Responsible activities need to be performed voluntarily by organisations, need to move beyond a focus on regulatory compliance and be integrated in their strategies and core activities.

High levels of CSR i.e. “context-specific organizational actions and policies that take into account stakeholders’ expectations and the triple bottom line of economic, social, and environmental performance” (Aguinis 2011, p. 855), can have significant benefits for the organisation. Benefits such as strengthened brand images (Lamond et al. 2010), increased employee commitment (Brammer et al. 2007), improved financial performance (Porter and Miles 2013) and enhanced reputations (Brammer and Pavelin 2006), serve as examples in this regard. Corporate Social Responsibility (CSR) strategy implementation could be considered an organizational change process (i.e., moving from a present to a future state; Lewin 1951) or as a new way of organizing and working (Anyieni 2016) and therefore requires effective change management. However, various barriers to CSR implementation are purported in the literature. Lack of resources (Yuen and Lim 2016); lack of a strategic vision (Pawlik et al. 2012), focus on short-term profits and goals (Skouloudis et al. 2011), serve as examples in this regard.

Creating sustainable organisational change is difficult. It is estimated that between 60% and 70% of all change initiatives fail (Cândido and Santos 2015) to reach their objectives, achieve only partial success, or in the worst-case scenario, make the situation worse. It seems that despite the numerous change models, approaches and methodologies available in the literature, leaders do not fully appreciate what is required in guiding their organisations through change. Putting it differently, leaders continue to lack a clear understanding of change, its antecedents, its processes or the ability to engage employees in change initiatives (Armenakis and Harris 2002). The following discussion will not consider the different types of CSR organisational activities or CSR strategy formulation, but as previously indicated, view CSR as a change process i.e. how to implement CSR activities using a change management lens.

Change Implementation Strategies

Current change management literature still proposes that prescriptive, linear change models are used i.e. change develops in successive steps which must be closely followed (Maes and Van Hootegeem 2019) with limited success. Furthermore, the change management literature is fragmented and many models e.g. Kotter (1996) are not supported by empirical evidence or scientific enquiry. These practice-based models make it difficult to identify and apply evidence-based change principles Stouten et al. 2018. However, we can get some guidance and evidence from empirical sources about some of the variables (Table 24.1) that may impact on implementing change successfully.

While opinions from experts e.g. Kotter (1996) and other practitioner sources may be useful in implementing change, those opinions are not always evidenced-based or informed by scientific research. From Table 24.1 it is evident that a one-size fits all approach, for example a prescriptive approach, may not be effective when implementing change. Taking the variables (Table 24.1) into account when designing a change implementation strategy, may enhance the probability of change success. In the following section, some change principles (to keep in mind when implementing change), will be further explored and discussed.

Being Ethical and Authentic

Demonstrating ethical behaviours and being authentic are pre-requires for leading CSR initiatives effectively. Change is inherently disruptive, and it is not possible to achieve sustainable change unless leaders' act in an ethical manner and adopt ethical approaches in the design and implementation of organisational change (Burnes and By 2012). Leaders need to demonstrate “normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, reinforcement, and decision-making” (Brown et al. 2005 p. 120). Demonstrating behaviours such as being perceived as fair, acting according to their values, role-model appropriate behaviour and communicating about ethics, serve as examples in this regard (Brown et al. 2005; Coetsee and Flood 2013). Therefore, a successful change leader requires moral character, a strong concern for self and others in order to influence the mind-sets, beliefs and practices of the recipients of the change. Putting it differently, the leader is characterized by a higher moral identity (Giessner et al. 2015). The leader needs to discuss ethical standards or norms with subordinates and be willing to deliver sanctions or rewards with regards to ethical or unethical behaviour (Brown et al. 2005). This also means that need to be authentic i.e. they are motivated from their values and convictions to act and are not obsessed or driven by prestige, status and organisational position. They are clear on what is important to them, how they feel and what their needs are. Putting it differently, change leaders who act in an

Table 24.1 Variables impacting on change implementation

Variables	By et al. (2016)	Van der Voet et al. (2016)	Neill et al. (2019)	Ford and Ford (2012)	Coetsee and Flood (2013)	Heracleous and Werres (2016)	Stouten et al. (2018)	Ouedraogo and Ouakouak (2018)	Ortega et al. (2014)
Leadership	x	x		x	x	x	x		x
Commitment to change		x	x		x		x	x	
Fairness							x		
Organisational identification			x				x		
Psychological safety					x		x		x
Relationship quality and social networks					x		x		
Trust				x	x		x	x	
Communication	x		x	x	x	x	x		
Shared goals							x		
Nature of change	x				x		x		
Vision				x	x	x	x		
Change readiness				x	x		x	x	x
Participation and involvement	x			x	x	x	x		
Top management commitment					x	x			

authentic manner, exhibit qualities such as honesty, integrity, credibility, are perceived as dependable and trustworthy. They are willing to share their emotions, there is congruence between actions and words, they are open to feedback and allows for openness and honesty in conversations. These behaviours will lead to increased job satisfaction and psychological well-being, as well as with favourable attitudes toward the leader (Bedi et al. 2016) as well as increased organisational citizenship behaviour (Mo and Shi 2017).

Internal Context: Preparation and Analysis

A key starting point for any change initiative is not only to analyse the external environment and determine the real need for change, but also an understanding of the internal factors that may influence the change implementation process. This requires an analysis of the change context to determine the important features that may influence successfully implementing a change initiative (Kanter 2011). This allows the opportunity to identify potential barriers or restraining forces (Lewin 1951) that may influence change success and the development of interventions to increase support for the change. Various contextual elements influence change success. Elements such as capability and capacity, resource availability, time available for implementing the change and the scope of the change (Balogun and Hailey 2008) serve as examples in this regard. Further contextual elements that may need exploration before a change is implemented are:

Change Readiness It is generally accepted in the literature that change readiness is an important building block for effective organisational change. Its importance is highlighted by Armenakis et al. (1993, p. 681) who argued that organisational readiness for change can be regarded “as the cognitive pre-cursor to the behaviours of either resistance to or support for, a change effort”. This means that if people are not ready for change, they will resist the change initiative. Readiness for change then refers to the mind-set of employees and can either be defined as a psychological state i.e. attitudes, beliefs and intentions or described in structural terms i.e. organisational resources and capabilities (Rafferty et al. 2013). Readiness for change is influenced simultaneously by the *content* (what is being changed), the *process* (how the change is being implemented), the *context* (circumstances under which the change is occurring) and individual attributes i.e. the characteristics of those being asked to change. Readiness for change refers to the mind-set of employees and can either be defined as a psychological state i.e. attitudes, beliefs and intentions or described in structural terms i.e. organisational resources and capabilities (Holt et al. 2007). Employees will be more motivated to support organisational change if they (1) believe that a change effort will result in benefits to the organization and will address the identified problem i.e. is appropriate (Holt et al. 2007) and to be beneficial for them personally (Vakola et al. 2013).

Understanding employee's attitudes towards change and factors that may impact on the formation of positive or negative reactions towards change may increase the likelihood for successfully implementing change in an organisation. Accepting the change and a change in individual employee's behaviour, is at the heart of any organisational change. Putting it differently, organisations only change through its members and successful change will only happen if individuals change their on-the-job behaviours. Therefore, organisational change is always mediated through individual level change (Schein 2004). Changing behaviour involves not only learning new behaviours or attitudes, is also about unlearning old behaviours or attitudes. The unlearning of old behaviours or attitudes may be very difficult for employees, as these behaviours are most probably well integrated into the personality of the employee and changing, may be experienced as traumatic. An individual's attitude towards a change intervention will influence their behavioural support for the change. Change efforts will fail if change agents underestimate the important role individuals play in the change process. Organisations should therefore measure, before and during the implementation process, the extent employees accept, reject or being neutral towards the change i.e. their level of change readiness.

Psychological Safety and Trust A key component of implementing change successfully is to create an environment where employees feel psychologically safe. This means that employees feel they can share their feelings and voice their opinions without fear of reprisals. Psychological safety therefore refers to employee perceptions regarding the consequences of interpersonal risk-taking (Edmondson 1999). When employees feel psychologically safe at work, it allows them to "willingly seek and provide honest feedback, grow, learn and contribute towards goal achievement (Edmondson and Lei 2014, p. 23)". Leader behaviours such as inclusiveness (Bienefeld and Grote 2014), support (May et al. 2004) and demonstrating behavioural integrity (Palanski and Vogelgesang 2011) can be regarded as antecedents for creating a psychologically safe environment. Trust can be regarded as a core component of psychological safety i.e. trust in the organisation is a pre-requisite for feeling that the organisation is supportive and open to new ideas (Ahmad et al. 2019). Psychological safety can be considered as important conditions in an organisation that facilitates and enables change. Employees who are willing to make themselves vulnerable, share their feelings be willing to speak-up and trust their leaders, may be more willing to view the proposed change positively and support the organisational change.

Change Leadership Organisational leaders are responsible for developing the change strategy, for strategy implementation and monitoring. They also act as change agents in the organisation. While the execution of organisational change must be well managed, it fundamentally requires effective leadership. There is growing evidence that leadership characteristics and behaviours influence the success or failure of organisational change (Coetsee and Flood 2013). It is generally accepted that key change leadership competencies such as communicating, mobilising and evaluating (Battilana et al. 2010) are important in implementing change

successfully. This means the leader need to be able to build a case for change, communicate the need for change i.e. developing and communicating the change vision (Kotter 1996). Furthermore, the change leader needs to motivate the change recipients to support the change i.e. inspire employees and be able to change the mind-sets and attitudes of employees (Rafferty et al. 2013). Also, the change leader needs to be adaptable and flexible, able to monitor and measure the impact of the change and institutionalise the changes (Battilana et al. 2010). Leading change successfully requires a range of leadership and competencies and it is unlikely that a single leader will possess all the required skills and competencies. While the role of the individual leader is important in leading change, it does not take into account the complexities of leading change. However, in change management, there are many forms of leadership and ways of leading that can be considered in leading change successfully. Distributed leadership (Denis et al. 2012), systems *leadership* (Ghate et al. 2013, p. 6), transformational leadership (Avolio et al. 2009) and Leader-member exchange (Dinh et al. 2014) serve as examples in this regard. Leaders need to be willing to empower employees and create a supportive environment. This, together with delegating authority and responsibility, allowing employees to participate in decision-making will enable employees to enact change effectively. This implies that employees may need a different skillset in order to be able to participate and contributing to the change process. Therefore, organisations need to have (1) a clear understanding of the competencies required to implement the change and (2) an understanding of competencies available in the organisation. The competency or skills gap need to be addressed through e.g. training interventions and coaching, before the implementation starts.

Communication In order to enact organisational change, employees must be mobilised to accept, commit and adopt the proposed changes. Change communication should be enthusiastic, frequent (Lewis et al. 2006) and needs to communicate realistic expectations (Lovallo and Kahneman 2003). It needs to communicate the future direction with honest answers to the “what”, “why” and the “how” of the change. Change recipients need to have a clear understanding of (1) what is going to change and (2) how will they contribute towards the change i.e. what are the change expectations? This means that effective change communication will address informational as well as emotional needs of employees. Russ (2008) advocates a dialogical and participatory approach to change communication. This allows employees to participate, co-create and make an active contribution to the change process. Failure to communicate effectively may lead to resistance that may influence change success and increase implementation costs (Christensen 2014). Inaccurate information or selective communication may lead to negative feelings and may impact on levels of trust in the organisation. The communication message needs to be balanced, i.e. communicating both the positive and negative implications of the change. This may lead to increased levels of trust as well as creating positive attitudes towards the change. The case of Unilever gives a good example for us for example in relation to the rejuvenation of the Dove brand which now seeks to celebrate women. Another example from that company is the promotion of the

Lifebuoy brand in India where it is tied to campaigns to improve handwashing and hygiene. Unilever has been very effective in building brand-based products which are in turn promoted through social networks such as Facebook and other social media. Social networks and social media are now inextricably linked to change as a social movement. Change in the social responsibilities of business is now a public event and stakeholders need to be carefully listened to in the process.

Develop a Context-Sensitive Change Approach

Managing change is complex and there is no formula or recipe that can be used to implement and manage change effectively. As previously discussed, it seems the application of available change management models, recipes and approaches are not always helpful in ensuring change success (Hughes 2016). Conversely, organisations implement major change without having a clear understanding of contextual challenges that may impact negatively on their change efforts. Stouten et al. (2018) argue in this regard that organisations still use N-step programmes i.e. having no clear strategies without an understanding of their influence on change success. It seems the way ahead is to formulate a customised strategy which integrates best practice and is built on an understanding of the operating context of the organisation. Balogun and Hope-Hailey (2008) argue in this regard that the start point in designing a context-sensitive approach toward change, is to do a contextual analysis as this will inform the change implementation options. **This means asking questions, for example, about variables such as culture, power networks, skillsets of people and availability of resources, time available to implement the change, scope of the change and change readiness of individuals and the organisation.** Identifying the enabling and restraining forces allows strategic alignment between the context and the development of a change implementation strategy. Furthermore, from a literature perspective, the following practices can also be considered (Table 24.2).

From the above-mentioned practices, it is clear that the starting point is **to have an understanding of forces for change, building a case for change and designing a blueprint that will enable you to reach your change objectives.** This blueprint should be detailed, dividing the change process in manageable chunks with clear milestones and communicated to change recipients. The communication must be clear, specific and enable employees to have an understanding of why it is necessary to change. A key success factor when implementing change is the demonstration of appropriate leadership behaviours and visible commitment towards the change process. Effective communication and leadership practices contribute towards making employees ready for the change. The change strategy should be contextualised, taking into account the unique characteristics of organisational life, strategy and culture of the organisation.

Table 24.2 Practices identified from the literature

Practice	Author
System and environmental diagnosis, identification of the need for change and the development of a change vision	Buchanan et al. (2005)
Change methods need to be continuously evolving to align with the environmental factors.	Al-Haddad and Kotnour (2015)
Development of a detailed change implementation plan i.e. setting of objectives, determination of stages and milestones	Whelan-Berry et al. (2003)
Understanding and anticipating employees' reactions to change and creating change readiness	Holt et al. (2007)
Creating a sense of urgency	Kotter (2012)
Building a case for change and effective change communication	Lewis et al. (2006)
Demonstrate leadership and leadership commitment	Kotter (1996) and Holmemo and Ingvaldsen (2016)
Alignment of systems, processes and practices with the change initiative	Kanter (2011)
Change practices need to be aligned to organisational context	Mayer and Stensaker (2006)
Build organisational change capacity and capability	Balogun and Hope-Hailey (2008)

Stakeholder Analysis and Partnerships

We started this chapter by emphasizing the stakeholder view of CSR. This theory builds on the notion that corporations are not only responsible to their shareholders by focusing on their bottom-line objectives, but should also take into account their responsibilities to other stakeholders (Freeman 1984). These stakeholders include actors that are either internal or external to the organisation such as employees, customers, suppliers, the environment and the public at large. When companies decide to introduce CSR related activities, they should be interested in maximizing the benefits to multiple stakeholder. In order to achieve benefit maximisation, stakeholders are categorised, and prioritised, based on their level of legitimacy, power to influence and urgency of their claim (Mitchell et al. 1997). However, this categorisation is greatly influenced by the manager's view of the expected relationship between the firm and its constituents.

There are various views as to the rationales and arguments of why the business community should behave socially responsibly, and these views often diverge between management and other stakeholders. The strategic view of CSR, often labelled a "managerial view", builds on the business case perspective, by asking the question whether and how can engagement in CSR related activities and practices benefit the firm and/or business community (Carroll and Shabana 2010). Even though management may sometimes include non-economic impact into their rhetoric, by viewing CSR through this lens, focus is mainly on financial results and the benefits to shareholders (Berger et al. 2007). In rare instances, employee related outcomes are also viewed as performance measure of CSR effectiveness, such as enhanced employee citizenship behaviour or employee in-role performance (Story

and Neves 2015). This perspective represents self-serving and self-interested motives for CSR based on the belief that it will not only enhance the firm's competitive advantage, thus ensuring its long-term viability, but also make government intervention redundant and satisfy the public pressure for taking action. Adhering to this view, the integration of CSR through the organisation is limited, unless external drivers, such as crises, consequently the public, demand it. In contrast, the moral view of CSR is concerned with upholding ethical standards based on the notion that most individuals share the basic value of fairness, human worth and dignity (Carroll and Shabana 2010). This view is a clear shift from the managerial view of CSR, by emphasising others-focused and public-serving instead of self or company-serving reasons.

Based on the above discussion regarding the diverging views of CSR, it is necessary to ask the question whether the motivation for CSR matters. Recent evidence suggests that stakeholders are unlikely to perceive a firm's corporate identity positively if they suspect the underlying motives being self-serving (Du et al. 2010). The attribution theory is based on the premise that "people care less about what others do than about why they do it" (Gilbert and Malone 1995). This is because CSR is typically presented as a voluntary activity aimed at furthering social causes. When CSR engagement is aligned with corporate values and perceived as genuine, it is called authentic (McShane et al. 2019). Authenticity, in this regard, is linked to the success of CSR initiatives (Beckman et al. 2009). In contrast, when CSR is viewed as greenwashing or window dressing, it may result in scepticism and backlash against the company (Schaefer et al. 2019). For example, employees' attribution of corporate volunteering activities to public relation/self-serving motives was found to undermine employee organisational commitment and organisational trust (De Roeck and Delobbe 2012; Gaignon-Turnau and Mignonac 2015). Similarly, a study focused on consumer attribution of a firm's CSR, found that customers reacted negatively to egoistic, while positively to strategic motives (self-serving), and negatively to stakeholder expectation driven, while positively to values driven motives (others-serving), rendering attribution to CSR more complex than traditionally viewed (Ellen et al. 2006; Skarmeas and Leonidou 2013). Managers therefore should pay attention to the driving forces behind their introduction of CSR initiatives, as they can fail and reducing the incremental value of the businesses' brand in their consumers' minds and lowers corporate equity (Skarmeas and Leonidou 2013). With the increasing public scepticism as to the role of corporations in our society and cynicism regarding companies' CSR claims (The Economist, 2012), there is an increasing need for managers to demonstrate the genuineness/authenticity of their organisation's CSR activities.

A most critical question, perhaps, is whether and to what extent have management and the business community at large adopted the stakeholder view of CSR. According to Pedersen (2011), most managers still hold a narrow view of the firm and focus on satisfying their core stakeholders, including their employees and customers, at the expense of not-for-profit organisations or the community they operate in. Even though cross-sector collaboration and engagement with the not-for-profit sector and

the wider community is seen an effective tool towards shared value creation, it seems that walking-the-walk may be harder for many than talking-the-talk.

Shared Value Approach According to Porter and Kramer (2006) business and society leaders instead of focusing on what divides them, should focus on the points of intersection between them. Based on the shared value principle of CSR, business and society are mutually dependent, they need each other. Business needs a healthy and prosperous society, while society needs business that can positively enhance the lives of its community members. Shared value creation suggest that firms should choose societal causes that intersect with their business and collaborate with the not-for-profit sector through partnerships that are beneficial to both (Austin and Seitanidi 2012). Austin and Seitanidi propose four collaboration stages placed on a continuum, which are associated with varying levels of value creation from sole creation to co-creation (philanthropic, transactional, integrative and transformational). An example to illustrate a collaboration that progressed into a transformational stage is that between Starbucks and Conservation International (CI) based on the shared values represented by their interest in environmental conservation and the desire to help small coffee growers to sustainable production. This win-win-win concept of CSR is built on the stakeholder view of the firm (Freeman 1984) and on the concept of the shared value creation (Porter and Kramer 2006), suggesting that organisations can benefit multiple stakeholders through their socially responsible initiatives. While CSR is mainly oriented towards external stakeholder engagement, which happens on the periphery of the firm, several authors highlight the necessity to integrate social initiatives into firms' day-to-day business activities to achieve benefit maximisation (Zollo et al. 2009). This integration is focused on the internal change processes of a firm through which the principles of CSR are embedded in its culture, inform everyday decision-making and their impact on society is consistently considered in the process. Evidence suggests that while firms' partnership orientation is important, the strongest predictor of Corporate Social Performance (CSP) is the degree of internal change and its management (integration). This finding further highlights the need for dynamic capabilities for a successful change management process.

Corporate Volunteering as a CSR Strategy While the purpose of this chapter was not the assessment of the various types of CSR initiatives in terms of change management, we feel that one form of CSR activity deserves a specific mention. Corporate volunteering (CV) has often been hailed as a win-win-win collaboration between business and the not-for-profit sector, an assertion which is often an assumption rather than a statement substantiated and/or generalised by research findings (Lee 2010). The benefits of CV to the employer can include improved company image, legitimacy and lower turnover (De Gilder et al. 2005; Basil et al. 2008). Employees may develop job-related skills and enhance their career prospects (Peterson 2004). In terms of the benefits to not-for-profits, CV can enlarge the volunteer pool and provide a needed supply of human resources (Skurak et al. 2019), as well as offer financial assistance through donations (Allen 2003).

The exponential increase in the popularity of corporate volunteering programs as a CSR strategy coincides with the emergence of a new form of volunteering termed *episodic* volunteering (Cnaan and Handy 2005; Shachar et al. 2018). This emergence is a response to societal changes that require more flexibility and support for those in employment wanting to contribute to their communities. It is suggested that corporate volunteers are a new source of volunteers that instead of cannibalising the exiting pool, expand it (Peloza and Hassay 2006; Roza et al. 2017). Corporate volunteering is often described as episodic, thus noncommittal and one-off/short-term activity that is supported by the employer that can mobilise a large number of employees (Benjamin 2001). CSR initiatives are often grassroots, driven from the bottom-up and initiated, planned and implemented by employee champions who recruit fellow co-workers to the cause (Grant 2012). However, it seems that an effective and sustainable CSR of the twenty-first century either requires the combination of top-down and bottom-up approaches to CSR or creating an environment where one can compensate for the other (Sharp and Zaidman 2010; Rodell et al. 2017). According to findings, 62% of US companies have CV programs that are employee directed (Wainwright 2005). Some forms of CSR initiatives are more conducive to employee involvement than others (Grayson and Sanchez-Hernandez 2010). For example, corporate volunteering initiatives are more participative than financial donations or cause related marketing. It has been argued that to sustain employee participation in CSR related efforts, the activities need to be perceived as increasing one's social capital through networking and relationship building (Muthuri et al. 2009). Furthermore, as employee volunteering motives are diverse, it is essential that organisations offer variability and choice in corporate volunteering initiatives in order to match individual motivations with activities that satisfy them, consequently enhance employee participation (Van Schie et al. 2011; Skurak et al. 2019). Last but not least, employee participation in corporate volunteering requires employer support, such as awareness (internal marketing), ease of accessibility, convenience, flexibility and paid time off (Grayson and Sanchez-Hernandez 2010; Skurak et al. 2019).

However, while the evidence about the employee and employer gains of corporate volunteering is mounting, many of the benefits expected to accrue to the charity do not come to fruition. On the contrary, CV partnerships can create costs to the charity, suggesting the lack of balance of interests between the parties (Haski-Leventhal et al. 2010). For example, while corporate volunteering provides human resources, there can be hidden cost associated with hosting CV events, especially for organisations with already strained resources (Lee 2010; Lefroy and Tsarenko 2013). In addition, financial resources in the form of donations are increasingly tied to larger partnership bundles, which are not accessible to many smaller not-for-profits. Not-for-profits often view corporate volunteering with potential but not actual benefits and as a "point of entry" for future donations, rather than a partnership (Samuel et al. 2013). As most aptly put by Duncan and Galbally (2005) "*the most fundamental failure of a corporate volunteering program occurs when businesses give lots of what the groups don't need and little of what they want*". It could be argued that in order to reduce uncertainty about the benefits of CSR and for it to

become integrated into the organisational culture, mainstream and transparent, it needs to be measured.

Implement Measuring Systems

The measurement of CSR outcomes, however should not be confined to the business case model of CSR, thus measured through the bottom-line metrics only (Berger et al. 2007). The syncretic stewardship approach to CSR suggests incorporating both, the financial and non-economic benefits of CSR, for example through triple-bottom line reporting, social accounting or the Social Return on Investment (SROI) methodology (Porter and Kramer 2006; Harlock 2013). The issue arises when we attempt to assign monetary worth to social impact, which is very qualitative in nature. The triple bottom line reporting incorporates economic, social and environmental performance measures. By using this approach, organisations may go as far as linking the achievement of financial and social goals to employee rewards or to career development opportunities (Berger et al. 2007). In fact, however, very few organisations measure the impact of their volunteering efforts on any of their stakeholders (Basil et al. 2009). One of the few studies that measured the benefits of CSR as accrued to the not-for-profit found that customer-corporate identification can lead to increased donations to the corporate supported not-for-profit (Lichtenstein et al. 2004). Most organisations express the benefits of their corporate volunteering efforts by reporting on their website the hours their employees volunteered and which charities have benefitted from these activities (Samuel et al. 2013; Cycyota et al. 2016). Not-for-profit seem to have a similarly poor track record in this regard. For example, a study of Swiss not-for-profits found that that very few documented the expenses and incomes associated with employee volunteering (Samuel et al. 2013). There is a growing pressure on the voluntary sector to demonstrate accountability and goal accomplishment to the public. While there does not seem to be a quick fix to this problem, there seem to be a consensus that beyond financial measures CSR performance has to be accounted for in terms of societal impact. There is more work to be done to remove the barriers, such as lack of cheap, off-the-shelf assessment tools, lack of trained and skilled staff to use these tools and as ‘one size does not fit all’, support to make informed choices as to the appropriateness of impact measure for a given organisation (Harlock 2013).

Despite the ever growing popularity of the adoption of CSR practices by corporations, its integration into the daily life of organisations is still some way away, consequently the transformational benefits are not often realised (Pedersen 2011). This is also supported by the fact that few corporate-volunteering collaborations result in sustained engagements and relationships (Austin and Seitanidi 2012). However, this is not surprising if we consider the extensive literature that documents and acknowledges the difficulties associated with creating high value, integrative and transformational collaborations (Seitanidi and Ryan 2007). In addition, the issues of exploitation and asymmetrical power relations are prevalent

in cross-sector partnerships and have been largely neglected in the non-for-profit - corporate partnership literature (NCP) (Seitanidi and Ryan 2007; Babiak and Thibault 2009). Thus, while corporate – not-for-profit partnerships offer valuable opportunities to all parties, there is some way before these partnerships will consistently operate on the premise of shared value creation and benefit maximisation to everyone involved.

Creating a Shared Change Vision

A change vision can be regarded as a shared mental model and provides a basis for action among employees of an organisation. Therefore, the purpose of the vision is to inspire, provide direction, motivate others and maintain commitment towards the change initiative (Kotter 2012). It has to be.

achievable, be clear and understandable and aligned to the culture and values of the organisation (Landau et al. 2006). The change vision needs to be shared as this creates a framework of common understanding and assists in shaping the values and standards of the organization (Christensen and Walker 2004). A clearly articulated change vision therefore assists in mobilizing employees and creating emotional alignment towards the envisaged change process. The importance of effective communication in the change process has been well researched (Oreg 2006). Change strategies often fail because information is not effectively communicated or the quality of the information falls short of expectations and requirements. The vision should be translated into language that employees are able to understand, should be easy to understand and inspire employees to take action. The change vision should be shared and communicated authentically and consistently. This will enable employees to understand their role in the implementation process and prepare themselves for what is laying ahead. The quality of communication is regarded as a key mechanism in creating change readiness (Elving 2005) and can influence the how employees perceive the change. Employees need to understand why the change is necessary, be able to predict what is going to happen next and what is expected of them.

Final Remarks

This chapter highlights and discusses (1) potential barriers that may be encountered and (2) change strategies that may be used when CSR initiatives are implemented. As indicated, the implementation of CSR interventions is complex and organisation change is inadequately understood. Simplistic, linear change implementation models are ineffective and a different approach towards implementing change is required. Organisations need to create a shared understanding of the purpose of the CSR initiative, identify the contextual constraints and drivers of the change, and avoid a

leader-centric approach in the implementation process. Furthermore, the development of relationships with internal and external stakeholders and the creation of an army of volunteers, will improve implementation success. Finally, successful implementation requires less centralisation, an empowering climate as well as leaders who focus on developing values and aligning behaviours.

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Chapter 25

Leadership as Stewardship: What Does the Story of the Unjust Steward Have to Say?



Alan J. Kearns

Abstract With the various high-profile global debates and protests about the urgent need to address climate change, the environment and sustainability, as well as the outbreak and pandemic spread of COVID-19, the focus turns once more to the concept of stewardship as a form of leadership. This chapter outlines the key features of stewardship theory, the etymology of stewardship as a concept and some of its biblical and theological aspects. The chapter then turns its focus to the story of the unjust steward as found in the New Testament. Although his dishonesty is not commended, the steward's prudence is. It is contended that this constructive lesson about the affirmation of the normative quality of prudence with resources in a time of crisis – despite the unethical context of dishonesty – offers an interesting position for the continuing reflection on leadership and business ethics. Using the categories of prudence to refer to 'responsible' and honesty to refer to 'good' – it is argued that with the present demand to address climate change, the environment and sustainability, prudent (responsible) rather than honest (good) leadership may become the prime focus for reflection on ethics in business and leadership as a form of stewardship.

Keywords Agency theory · Honesty · Leadership · Prudence · Stewardship · Stewardship theory · Sustainability

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Introduction

One aspect of the academic discipline of business ethics is to assess, evaluate and contribute to the discussion about what makes for responsible and good leadership.¹ Today, any reflection on leadership in the context of business ethics cannot but take cognizance of the palpable focus on climate change, the environment and sustainability, especially in the context of a world that has been marked by the outbreak and pandemic spread of a novel Coronavirus. The various global protests have highlighted yet again the urgent need to address such issues, which require major shifts in individuals' lifestyle and choices, in attitudes towards disposal and destruction of waste, in chartering different paths in businesses/organisations' use of finite and renewable resources as well as meaningful and effective political policies that can bring forth targeted and sustained solutions through collected cooperation among countries. The focus of this critical juncture is not only on short-term solutions brought about by changes in individuals' behaviour, businesses/organisations' mentality and political will but also on long-term sustainability of efforts and resources for the next generation and beyond. Business/organisational leaders – whether of big corporations or of small and medium-sized businesses – cannot ignore their role in contributing to an effective approach to sustainability of resources for our world and for its present and future inhabitants. Corporate social responsibility (CSR) and sustainability are often presented together and are closely linked (e.g. Breitbarth et al. 2018; Pistoni et al. 2016; Strand et al. 2015). A strategic policy and active practice in CSR, it is claimed, is important for the long-term sustainability of any business enterprise (Department of Enterprise and Innovation 2017 p. 6 and p. 7; also see Camilleri 2017; McWilliams and Siegel 2011; Weber 2008). On the one hand, the European Commission (2011) understands CSR as “the responsibility of enterprises for their impacts on society” (p. 6). On the other hand, sustainability has been understood to be “[...] development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (Brundtland 1987).

The current inescapable focus on climate change, the environment and sustainability has brought the concept of stewardship in leadership and business ethics to the fore again. Stewardship is a rich concept with various interpretations; but it has become synonymous with the supervision of resources (Le Bruyns 2009 p. 69). The concept is greatly used in connection with the quest of sustainability (West et al. 2018 p. 30). Stewardship is seen as offering an essential resolution to the issue of sustainability and deprivation of the ecosystem (Cockburn et al. 2019 p. 59). According to Azizan and Wahid, (2012), the concept of stewardship refers to

¹For the purpose of this chapter, I am taking a broad understanding of ‘responsible’ as found in the Online Cambridge English Dictionary: “to have control and authority over something or someone and the duty of taking care of it, him, or her”. <https://dictionary.cambridge.org/dictionary/english/responsible>. I take the ‘good’ to refer to the domain of value and fundamental purpose (Murphy 2008 p. 117).

responsible conduct vis-à-vis the environment, which includes a relation between persons and the environment that is cooperative (p. 590).

Beyond the climate change and environmental context, the theoretical underpinnings and explication of stewardship for responsible and good leadership continues to merit serious consideration and fresh thinking. Jansen (2013) explains that “[...] stewards are persons who are charged with the task of taking good care of that with which they have been entrusted” (p. 51; also see Smith 2002 p. 348). An understanding of leadership as a form of stewardship can help to concentrate minds on the long-term strategic aims of the business/organisation as well as issues relating to sustainability and environmental impacts when producing goods or providing services, which can have intergenerational consequences.

This chapter begins by presenting stewardship in contrast to agency theory. It then outlines briefly the concept of stewardship’s etymology before moving on to highlight some of its key aspects as presented in the biblical literature and as theologically understood. The chapter then turns its focus to the Christian New Testament parable of the unjust steward – a story which has perplexed biblical scholars over the years. The story has been interpreted as offering a constructive message about the prudent deployment of resources despite the dishonesty of the steward. My contention is that this constructive lesson about the affirmation of the normative quality of prudence with resources in a time of crisis – despite the unethical context of dishonesty – offers an interesting position for the continuing reflection on leadership and business ethics today. Using the categories of prudence to refer to ‘responsible’ and honesty to refer to ‘good’ – it is contended that with the present demand to address climate change, the environment and sustainability, prudent (responsible) rather than honest (good) leadership may become the prime focus for reflection on ethics in business and leadership as a form of stewardship.

Agency Theory

The theory of stewardship in the context of business and organisational leadership is often situated in contrast to agency theory (see Jensen and Meckling 1976). Agency theory is one of the dominant accounts of leadership. The term ‘agency’ implies acting “[...] purposively [...] on behalf of a principal² or in the service of a goal or policy” (Selznick 1992 p. 238). It has been argued that agency theory has developed from a particular economic understanding of the person (Donaldson 1990 p. 377). It is based on the assumption that the person is motivated by an unremitting drive to look after their own interests. To put it another way, the person is considered to be a rational maximiser who seeks their financial benefits (Donaldson and Davis 1991 p. 51). Following on from this, one postulation given in agency theory is that the objectives of the managers and the owners of the organisation

²The “principal” refers to the owner(s) of the organisation.

may not be aligned (Zahra et al. 2008 p. 1037). As Davis, Schoorman and Donaldson (1997) put it, “[o]wners become *principals* when they contract with executives to manage their firms for them. As an agent of the principals, an executive is morally responsible to maximize shareholder utility; however, executives accept *agent* status because they perceive the opportunity to maximize their own utility. Thus, in the modern corporation, agents and principals are motivated by opportunities for their own personal gain” (p. 22). Consequently, between the agents and principals of an organisation there is an inherent clash of interests (Donaldson and Davis 1991 p. 51). With agency theory, the agent is seen as someone who may look after their own interests at the expense of the organisation (Donaldson 2008 p. 308). In order to bring the agent’s self-interests into line with the interests of the principals, it is maintained that some kind of financial concession is offered as well as having the supervision of corporate governance structures (Zahra et al. 2008 p. 1037) and an autonomous board of directors (Muth and Donaldson 1998 p. 5).

The theoretical division between the owners from managers within the context of the structure of governance in American corporations in particular has been traced back to the work of Berle and Means (1933) (Lee and O’Neill 2003 p. 213). They state that “[a]s the ownership of corporate wealth has become more widely dispersed, ownership of that wealth and control over it has come to lie less and less in the same hands” (Berle and Means 1933 p. 69). The development in this division between owners and managers, it is argued, led to the latter becoming more powerful and uninhibited to go after their own interests (Muth and Donaldson 1998 p. 5). Against this background, and in opposition to a predominantly agency view, a pattern of thinking on stewardship as a form of leadership emerged.

Stewardship Theory

As already mentioned, in the agency view it is maintained that there is a struggle between the self-interests of managers (i.e. the agent) and principals (i.e. owners of the organization). In contrast to this, the stewardship view sees more of an alignment between managers and principals. The objectives of shareholders and managers not being at odds with each other is considered to be a key postulation in stewardship theory (Lee and O’Neill 2003 p. 213). In the stewardship view, the agent seeks what is good for the organisation despite their own interests (Wasserman 2006 p. 960; Donaldson and Davis 1991).³

According to Davis, Schoorman and Donaldson (1997), in the theory of stewardship managers are driven by their principal and not by their own objectives (p. 21). As explained by Muth and Donaldson (1998), “[s]tewardship theory recognises a range of non-financial motives for managerial behaviour. These include: the need

³From his research, Wasserman (2006) purports that instead of a clash between these two theories, they can complement each other in the context of new ventures.

for achievement and recognition, the intrinsic satisfaction of successful performance, respect for authority and the work ethic” (p. 6). The theory of stewardship maintains that a conflict of interest between the owners of the organisation and managers does not exist and that the latter works for the owner’s interests (Donaldson 1990 p. 377).

According to Block’s (2013) seminal work, the stewardship model involves a shift in thinking about how organisations – qua places of work – operate: it requires a move away from competitiveness to connectedness and partnership. Stewardship “[...] is concerned with creating a way of governing ourselves that creates a strong sense of ownership and responsibility for outcomes at every level of the organization” (Block 2013). It is about engendering and maintaining sustainable partnerships with customers and relations with employees (Block 2013).

Caldwell, Bischoff and Karri (2002) purport that the *prima facie* primacy of the interests of those who have a claim in the success of the organization drives the steward (p. 161). The steward pursues the collective benefit of the organisation (Davis et al. 1997 p. 25). Under the model of stewardship, the leader is focused on the organisation and on bettering how it operates (Arthurs and Busenitz 2003 p. 154).

Caldwell, Hayes, Karri and Bernal (2008) use the term ‘ethical steward’ to denote a leader both in a normative and instrumental sense (p. 153). They provide the following definition for ‘ethical stewardship’: “[...] the honoring of duties owed to employees, stakeholders, and society in the pursuit of long-term wealth creation” (Caldwell et al. 2008 p. 153). Based on their research, they go on to put forward six aspects of an ethical stewardship relationship (Caldwell et al. 2008 pp. 156–157): Firstly, there is direct relationship between the leader and the employee in which the employee is not treated as a product. Secondly, this relationship is both transactional and transformational. The transactional relationship refers to pursuing commercial exchanges to maintain the viability of the organisation and transformational relationship refers to using this viability to transform the organisation and its people according to their needs. Thirdly, the relationship combines social contracts (i.e. obligations on both sides) that are both implied as well as overt. Fourthly, this relationship to the ethical steward is understood from the vantage point of the employee. Fifthly, the ethical steward pursues the generation of long-term wealth for all who have a stake in the organisation. Finally, there is the continuous “management of meaning” of the various values, beliefs and outlooks of the employees regarding their own philosophy of work.

From the above, some of the following aspects can be gleaned about stewardship: Leaders as stewards seek the best interests of the organisation and its stakeholders; they seek to maintain sustainable partnerships with customers and relations with employees; where employees are regarded as ‘ends’; they seek the generation of long-term and sustainable creation of wealth for the organisation. Having outlined some of the qualities of leadership as found in stewardship, the concept of stewardship in terms of its etymological origins and some of its further theological understandings is now examined.

Concept of Stewardship

The concept of stewardship is deemed to be dynamic and difficult with multifaceted explanations (Cockburn et al. 2019 p. 59). The word “stewardship” comes from the Greek *oikonomia* (Brattgård 1963 p. 31).⁴ Brattgård (1963) explains that in its original Greek usage, stewardship had a number of connotations: It designated the management of a household, which eventually was used to denote a wider scope such as the management of a state (p. 32). It also came to refer to a multiplicity of briefs, e.g. caring of the human body in medical practice (Brattgård 1963 p. 32).

Steward is *stiward* in Old English, which can be understood to signify a “house guardian” (Gini and Green 2014 p. 439). A steward is an agent on behalf of another person (Gini and Green 2014 p. 439). A steward is considered to be someone “[...] who has responsibility for the care and use of resources that belong to another” (Birch 2002 p. 358).

The concept of stewardship, it is claimed, is not by definition religious, nonetheless there is a theological association made in relation to it (Jansen 2013 p. 51). Stewardship is understood to be used as a biblical concept to denote someone who has a responsibility to carefully and prudently look after the property of somebody else (Rhoads 2009 p. 335). According to the *Expository Dictionary of Bible Words* (2005), the Greek word for steward is *oikonomos*, which means “one who oversees or manages household or civic affairs” (p. 931). *Oikonomos* consists of two words, *oikos*, meaning “house” and *nemo*, meaning “manage” (Duncan 1996 p. 1134). The steward is one who has a transitory responsibility to supervise the owner’s belongings (Foster 1995 p. 17). A steward is not proprietor; a steward is someone charged to look after someone else’s possessions (Gillespie 2003 p. 147; also see Rhoads 2009 p. 335). The one who did this in biblical times was mainly a slave (Renn 2005 p. 931). In the Greek translation of the Hebrew Bible/Old Testament (i.e. the Septuagint), a steward is “a kind of chief slave who superintended the household and even the whole property of his master [...]” (as cited in Foster 1995 p. 15; Theological Dictionary of the New Testament, 5:149).

Theology of Stewardship

According to Ellis (1995), in the Hebrew Scriptures/Old Testament, the focus of stewardship is on how humanity responds to the divine initiative realised in various gifts (Ellis 1995 p. 4). This theological view of stewardship acknowledges humanity’s place in relation to the supremacy of God and the subjugation of humanity (Ellis 1995 p. 4). Persons do not ‘own’ the gifts of creation but rather are stewards of them (Ellis 1995 p. 4). As stewards, persons act as representatives of the divine (Ellis 1995 p. 5).

⁴The origin of the word “economy” has also been connected to *oikonomia* (Leshem 2016 p. 225).

Contrary to this view of steward as an overseer of the gift of creation, there is another view of ‘dominion’, which posits the person as having an unconstrained mastery of the environment. This perpetuates a view that persons are masters of the earth and it is for them to do with it as they wish. Some have laid the blame for the environmental crisis at the very doorstep of this view of dominion (Kwong 1996 p. 255; also see Heuer 2010 p. 37). However, it is contended by Ellis (1995) that the dominion of humanity – as outlined in the Book of Genesis (1:26–28) – is not one characterised by forcefulness but rather by benevolence (Ellis 1995 p. 5). Problems arise when this is forgotten and humans act contrary to their roles (Ellis 1995 p. 6). It is this destructive view of dominion that has resulted in a neglect of our proper responsibility of being stewards and that we are now realizing its effect through the environmental crisis and climate change (see Rhoads 2009 p. 335).

The theological view of stewardship continues with the emergence of the Christian experience whereby it is understood in the context of humanity not having any possessions but rather having being gifted by a divine source, i.e. the earth’s natural resources do not belong to humanity but rather we are stewards over it (Rhoads 2009 p. 335). In the context of the Christian New Testament, Duncan (1996) points to two words that can be translated as steward (pp. 1133–1134): Firstly, *epitropos*, which is understood to be “[...] one to whose care or honour one has been entrusted [...]” and this version can be found in the Gospel of Matthew 20:8. Secondly, the aforementioned *oikonomos*, which is understood to be “[...] a manager, a superintendent [...]” and this version can be found in the Gospel of Luke 16:2–3 (Duncan 1996 pp. 1133–1134).

In the New Testament, *oikonomia* is not used that often (Brattgård 1963 p. 37). But as Brattgård (1963) explains, when it is used, it has a diversity of connotations (p. 37): For instance, it denotes both the nature of stewardship and the steward’s work. It is also used to refer to the apostolic office bestowed by Jesus (e.g. 1 Corinthians 9:16–18 as referred by Brattgård) (Brattgård 1963 p. 37). It is noted that *Oikonomos* in Romans 16:23 is more akin to a “director of public works” (Renn 2005 p. 932). Although steward has various connotations in the biblical literature, a common dominator is deemed to be the notion of “overseeing” (Stein 1996 p. 1065).

From the above, it can be seen that stewardship has a long theological history attached to it. Some of the following aspects can be gleaned about the concept of stewardship from a biblical and theological perspective: A steward is not one who owns something but is charged with the care management of it; theologically speaking, a steward is entrusted with creation that is a gift to look after and that, therefore, the steward’s attitude should be one of appreciation and humility. There are various accounts of the work of stewardship in the biblical literature. In particular, the story of the unjust steward has a pertinent lesson for continuing reflection on leadership and business ethics, to which we now turn.

The Story of the Unjust Steward

In the Christian Gospel of Luke, the story of the unjust steward (16:1–9)⁵ has vexed scripture scholars over the years (see Burkett 2018 p. 326; Combrink 1996 p. 289; Fitzmyer 1964 p. 23; Fletcher 1963 p. 15; Gächter 1950 p. 121; Goodrich 2012 p. 547; Greene 2000 p. 82; Ireland 1989 p. 293; Kloppenborg 1989 p. 474; Loader 1989 p. 518; Morris 1974 p. 245). There is no universally shared consensus on how this parable should be understood and interpreted (see Burkett 2018 p. 326). The story – also known as the “dishonest manager” (Gagnon 1998 p. 1; Fitzmyer 1964 p. 23; Levine and Witherington 2018 p. 433), the “unrighteous steward” (Burkett 2018 p. 326), the “dishonest steward” (Caird 1968 p. 184; Edwards 2015 p. 449; Udoh 2009 p. 311), the “shrewd manager” (Edwards 2015 p. 449) – is presented as narrated by Jesus of Nazareth when he is on his way to Jerusalem (Fitzmyer 1964 p. 24).

The story goes that the steward had acted recklessly with his master’s assets (Luke: 16:1). Faced with the prospect of losing his position of being his master’s steward and not wanting to assume other job possibilities, the steward gets his master’s debtors to fabricate their accounts (Luke 16:3–7). The sagacious steward ensures that his own future is protected through cleverly decreasing the arrears owed to his master by his master’s borrowers (Bowen 2001 p. 315). Pawson (2017) sees the parable as having two sections: it is an account of a steward’s “predicament” (i.e. he finds himself potentially being let go by his master) and his “prudence” (i.e. he finds a way out of his present quandary) (pp. 374–375). By getting the debtors to “cook the books” not only does the steward act dishonestly, so too does the debtors of the master (Levine and Witherington 2018 p. 439). Yet, the steward is applauded for his shrewdness by his master (Luke 16:8).

In his extensive research, Ireland (1989) maintains that there are two main interpretations of the Story of the Unjust Steward that emerge in the academic literature in the 19th and 20th century (p. 294)⁶: 1) that his actions are deemed to be fraudulent and dishonest and 2) that his actions are deemed to be just and honest (p. 295). The former interpretation is the more customary one, which understands that although the actions of the steward are not honest, a helpful message regarding prudent management of assets can be gleaned (Ireland 1989 p. 295). The steward is praised for his prudence to provide for the future but his acts of dishonesty are not commended (Ireland 1992 p. 114; also see Brown 1997 p. 249; Pawson 2017 p. 377). In this view, the steward’s wise prudence is deemed to be quick-witted considering the catastrophe that awaits him (Fletcher 1963 p. 18). Even though the steward behaves in a dishonest way, the prudence demonstrated by him is nonetheless commendable (Ireland 1989 p. 296). The act of fabricating the accounts may have been wrong but there is a valuable message to be learnt about prudence in

⁵Please see the New Revised Standard Version as presented in the online Bible Gateway. www.biblegateway.com

⁶Also see Ireland (1992).

resource management, especially for those in hardship (Ireland 1992 p. 217). There is a constructive message that is taught about the utilisation of resources in a prudent way in a time of crisis and in preparation for the coming of the Kingdom of God (Mathewson 1995 p. 39; also see Ireland 1989 p. 295 and p. 298). As explained by Mathewson (1995), “[t]raditionally Luke 16:1–13 has been understood as portraying a steward who cheats his master but who is commended for his wisdom, a quality to be imitated by Christ’s disciples in their use of material possessions in light of the coming eschatological kingdom” (p. 29). In a nutshell, the prudence of the steward appears to be upheld as an example by Jesus to his followers to imitate. Consequently, it has been questioned whether such a story that appears to commend the prudent steward as a model to imitate would have been narrated by Jesus of Nazareth (Fletcher 1963 p. 17). As put by Gächter (1950): “How can Jesus make villainy an example for his followers” (p. 121)?

Other interpretations of the story have focused on the economic context that would purport that the steward’s deeds were not dishonest but rather he was discharging a commission that he would have obtained for himself (Fitzmyer 1964 pp. 35–36) or that the parable should be interpreted from the perspective of irony (Fletcher 1963 p. 27; also see Bowen 2001 p. 315) or that the focus should not be on the character of the steward but rather on the honour of his master (Kloppenborg 1989 p. 474) or that the parable demonstrates the steward’s loyalty to his master (Landry and May 2000 p. 287). According to Mathewson (1995), Ireland’s work has reaffirmed the customary interpretation of the parable despite various competing interpretations but continues to be challenged with new analyses (pp. 29–30). In their preparation for the coming of the Kingdom of God, the disciples should learn to be prudent – albeit not in a dishonest way – in their discharge of wealth (Mathewson 1995 p. 30; also see Greene 2000 p. 83; Landry and May 2000 p. 292).

Implications for Leadership as Stewardship

The story of the unjust steward illustrates how parables are employed to “[...] shock people and so break open their awareness for new insight” (Loader 1989 p. 532). As already mentioned, the customary understanding of the text is that constructive message can be gleaned although the actions of the steward are deemed to be dishonest (Ireland 1992 p. 7). The steward’s determined action in a disaster situation is praised (Morris 1974 p. 245).

But what are we to make of a story from the Christian legacy for leadership and business ethics in the twenty-first century? In the first instance, to have a universal appeal beyond the Christian religion, the story needs to be detached from any theological reading regarding the end of things and the coming of a divine new reality. Secondly, the distinction that is drawn between the acts of the steward that are dishonest on the one hand, and the steward’s prudence on the other (Burkett 2018 p. 331) is important here. In other words, the dishonesty of the steward can be separated from his prudence. It may seem unusual that a story about a steward that is

dishonest could have any constructive instruction for leadership and business ethics. Although the steward had acted dishonestly, his prudence regarding forward thinking about the utilisation of resources is the normative element that is praised. With the present contextual challenge of protecting the environment and mitigating climate change, the story's lesson about prudence and determined action is pertinent for this problematic experience. The utilisation of resources in a prudent way in a time of crisis is at the forefront of sustainability. From a stewardship perspective, business/organisational leaders need to be prudent with the deployment of resources and need to be decisive about pursuing solutions for the utilisation of resources (see Ireland 1989 p. 298). Prudence is indispensable for stewardship: It is front and centre. This is not necessarily novel but has been a gradual – in some cases reluctant – realisation for some time.

The European Commission's communication on *The European Green Deal* (2019) recognises that addressing the issue of climate change and the environment is "this generation's defining task" (p. 2). It provides a strategy for a sustainable journey with the aim to have "[...] no net emissions of greenhouse gases in 2050 and where economic growth is decoupled from resource use" in the European Union (European Commission 2019 p. 2). The European Commission is also planning to put forward a legal basis for this aim in its 'Climate Law' (European Commission 2019 p. 4). The EU's Green Deal holds an essential position in its overall plan to apply the United Nation's Sustainable Development Goals (SDGs) (European Commission 2019 p. 3; also see UN Sustainable Development Goals 2015).

In relation to business and sustainability, the EU's Green Deal states that: "[s]ustainability should be further embedded into the corporate governance framework, as many companies still focus too much on short-term financial performance compared to their long-term development and sustainability aspects" (European Commission 2019 p. 17). In the context of one of the EU's member states, Ireland's second national plan on corporate social responsibility is entitled *Towards Responsible Business: Ireland's National Plan on Corporate Social Responsibility 2017–2020*.⁷ The vision laid out in this Plan is that "[...] Ireland will be recognised as a Centre of Excellence for responsible and sustainable business practice [...]" (Department of Enterprise and Innovation 2017 p. 6). The overall aim of the Plan is "[...] to further support businesses in Ireland to create sustainable jobs; embed responsible practices in the marketplace; embrace diversity and promote responsible workplaces; and encourage enterprises to consider their businesses' impacts on the environment" (Department of Enterprise and Innovation 2017 p. 6). It highlights the significance of corporate social responsibility for sustainability of a business (Department of Enterprise and Innovation 2017 p. 7). In its section on "CSR and the Impact of Leadership", the Plan holds the view that the positioning of CSR practices at the centre of a business plan is the foundation to responsible and sustainable development and it encourages those in leadership to have their CSR strategies

⁷The first plan was entitled *Good for Business, Good for Community: Ireland's National Plan on Corporate Social Responsibility 2014–2016*.

brought into line with the UN SDGs (Department of Enterprise and Innovation 2017 p. 13).

Given the various policies and the high profile global debates and protests that are driving climate action, the protection of the environment and sustainability, together with the essential link between CSR and sustainability of businesses, my contention is that the story of the unjust steward's constructive lesson about the affirmation of the normative quality of prudence with resources in a time of crisis – despite the unethical context of dishonesty – poses an interesting position: If we place prudence in the category of 'responsible' and honesty in the category of 'good' – then it can be argued that with the present demand to address climate change, the environment and sustainability, prudent (responsible) rather than honest (good) leadership may become the prime focus for reflection on ethics in business and leadership as a form of stewardship. In addition, it is the focus on prudent (responsible) rather than on honesty (good) in the context of sustainability that demonstrates the pragmatic aspect of stewardship for leadership. An honest leader may not necessarily be a prudent one. Arguably, a prudent leader would need to be honest with resource management issues to avoid poor deployment of resources. However, prudent leaders may not always act honestly in all other dealings. This is not to suggest that we do not need honest leaders nor that prudence must not be done at all (ethical) cost. Rather, given the present challenge of climate change, environment and sustainability, what is being proposed here is that prudence rather than honesty is nonetheless the primary ethical quality for responsible leadership.

In terms of stewardship as leadership, Hall's (1990) five principles are relevant in terms of spelling out the nature and functions of prudent (responsible) leadership. The principles consist of globalisation, communalisation, ecologisation, politicisation, and futurisation (Hall 1990 pp. 122–152; Le Bruyns 2009 pp. 71–73): 1) The principle of globalisation keeps in focus the global dimension of leadership. Leadership as stewardship requires that we keep the wider world in view. The prudent use of resources needs to be sensitive to its potential and real global implications. 2) The principle of communalisation refers to how stewardship is defined by a collective nature. Stewardship is not an individual endeavour but a collective one. The prudent utilisation of resources and decisive action in times of crisis needs to be done in partnership with other people. 3) The principle of ecologisation reminds us of the interdependence of all life and the natural world. This is clearly important for how natural resources are prudently used and the impact of business production and services on the natural world. 4) The principle of politicisation brings to the fore the responsibility of leaders towards public life and the good of society. Leaders need to be open to critiquing economic systems that they work within and need to seek social forms that are more conducive to the good of society. 5) Finally, the principle of futurisation highlights the importance of making decisions and taking actions about the prudent use of resources that are not solely focused on the present but on how it will affect future generations.

Following in the thought of Hall (1990), it can be said that in terms of leadership as form of stewardship, a responsible leader will use resources prudently for the world (globalization) and in conjunction with others (communalisation); a

responsible leader will use resources prudently not only for humans but also for animals and the natural world (ecologisation); a responsible leader will contribute to the public debate about how economic systems can support the prudent use of resources (politicisation); finally, a responsible leader will act prudently not only for the present context but also with the future in mind (see Hall 1990 p. 138 and p. 148).

The direction of leadership in any business/organisation can not only be stirred by the immediate issues that the organisation faces but needs to take into account the wider circumstances of society as well as global challenges. Pivotal to this is the sustainable use of resources that relies on prudent and forward thinking regarding issues relating to, for example, biodiversity, carbon emissions and clean energy. The utilisation of resources in a prudent way in a time of crisis is at the forefront of sustainability. My position is that if we apply the story of the unjust steward's constructive lesson for continuing reflection on leadership and business ethics today, then it could be maintained that the normative quality of prudence is to the fore compared to the normative quality of honesty in the challenging context of climate change, the environment and sustainability. Perhaps the parable of the unjust steward offers a comforting story for leaders who may find themselves not totally honest in all their dealing but at least prudent with resources. Most of us may strongly feel that leaders ought to be honest. But do we always expect them to act honestly? Perhaps that is why some consider ethics in business to be an oxymoron (see Shaw 1996 p. 489). However, to expect leaders to be prudent makes responsible business and moral sense.

Conclusion

It has been argued that the concept of stewardship in the context of leadership is underused (Maak and Pless 2019). With the drive of policies and global debates as well as the élan of today's younger generation, which has galvanised a movement to mitigate climate change and the crisis of environmental damage, the focus turns again to the concept of stewardship as a form of leadership. The concept of stewardship has not lost its moral currency and has a long history with various perspectives and interpretations in terms of leadership theory, etymology, as well as its usage in biblical literature and theology. One story from this biblical collection is the story of the unjust steward. Despite his shortcomings, the steward's prudence is praised. Although there has been no universal consensus on the story of the unjust steward among biblical thinkers, the perplexing story can provide a constructive instruction – which can be easily lost – for the subject of leadership and business ethics: The normative quality of prudence is endorsed even within the situation of dishonesty. The traditional view of the steward being commended for his prudence in a time of crisis, places the focus on prudential (responsible) rather than on honest (good) leadership. With the present definite concentration on climate change, the care for the environment and sustainability – especially in the context of the ongoing impact of COVID-19 – the focus of business ethics on leadership as a form of

stewardship may become more about prudent (responsible) rather than honest (good) leadership.

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Chapter 26

Doing the Right Thing: It Is in Our Power to Act and Not to Act



Maureen King

Abstract This chapter explores the concept of Leadership and Business Ethics through the evolution of privacy laws in the digital age. Business leaders are faced with an increasing volatile, uncertain, complex, and ambiguous (VUCA) regulatory environment to operate in, particularly in the business activity of processing personal data. With the development of privacy laws and regulations aimed at enhancing the privacy rights of individuals, business leaders face ethical challenges in striking a balance between a citizen's right to privacy and providing assistance to law enforcement agencies in combating serious crime (including but not limited to, organised crime, terrorism and murder) and maintaining public safety (including saving of human lives).

This is particularly complex in the environment that telecommunications service providers operate in and also presents significant challenges for global technology companies. It is likely that in the short to medium term, organisations will be subjected to enhanced regulation and businesses will be required to lead in a new way.

This chapter outlines the evolution of privacy laws in Ireland specific to the retention of and access to telecommunications data, it aims to demystify the General Data Protection Regulation (GDPR), examines a landmark privacy case - *Graham Dwyer v The Commissioner of An Garda Síochána*, highlights the importance of balancing competing rights, the rise in the role of Chief Ethics Officers and proposes a new social contract for the digital age.

Keywords Ethics · Balancing of Rights · Socially conscious leader · Digital age · Regulatory environment of telecommunications service providers · Privacy laws in Ireland · Retention of and access to telecommunications data · General Data Protection Regulation (GDPR)

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Introduction

The speed of change in many industries is much faster now than 20 years ago due to advances in technology, digitalisation, increased globalisation combined with heightened terrorism, financial crises and global shifts in power. Communications technology is advancing at a rapid pace and the activity of processing personal data is now a core business activity. Data stemming from telecommunication operators and service providers, according to the Council of the European Union on Retention of Data for the Purpose of Fighting Crime, is very important in order for law enforcement, prosecution and judicial authorities to successfully investigate, prosecute and adjudicate on serious crime in the digital age. It is an aim of general interest to fight crime in order to maintain public safety and ensure the security of persons as a necessity for ensuring fundamental rights. Over half a century ago Professor Alan Westin, one of the most important scholars of privacy talked about there being a need to strike a balance between the competing demands of privacy, disclosure and surveillance. Westin could see the direction that technology was pushing the social contract and here we are today grappling with those very challenges, trying to define new norms and standards of behaviour in a digital world. This is an opportunity to place ethics at the forefront of this debate.

The Evolution of Privacy Laws

Data retention regimes must provide for sufficient safeguards for fundamental rights, as enshrined in the EU Charter of Fundamental Rights, in particular the right to privacy, protection of personal data, non-discrimination and presumption of innocence. Governments also have a clear duty to ensure the safety and wellbeing of its citizens and a delicate balance must be struck in protecting rights which, while fundamental, are not absolute.

Data retention, in the context of telecommunications, defines the process whereby telecommunications service providers (CSPs) process and retain information related to mobile, fixed and internet telephony. The obligation imposed by the Irish government on CSPs to retain data stimulates a variety of legitimate differing viewpoints, with the main arguments revolving around privacy concerns and what infringements on this right are necessary and proportionate in the context of maintaining a safe society.

Over the past decade, the data retention and access regime in Ireland has been subjected to increased scrutiny, mainly due to ECJ (European Court of Justice) judgements concerning cases related to the protection of privacy and human rights. These judgements have led to an increase in legal challenges in criminal trials in Ireland, on the admissibility of telecommunications related data, which has been retained and accessed under the provisions of the Communications (Retention of Data) Act 2011.

The following chronology outlines the main developments, which have impacted on the evolution of the legislation governing telecommunications data retention and access:

2006: EU Data Retention Directive

In March 2006, the European Parliament and Council adopted the Data Retention Directive (DRD 2006/24/EC), to harmonise member states' data retention practices. In practice, DRD 2006/24/EC required EU member states to ensure that CSPs collect specific categories of communications data generated on their systems and retain it for a specified period of time. During the retention period, the data was to be accessible by authorities such as law enforcement, but only for strictly defined purposes such as investigating serious crimes such as murder or terrorism.

2011: Irish Legislation

Ireland implemented the DRD 2006/24/EC by means of the Communications (Retention of Data) Act 2011 in January 2011. The Act requires all telecommunications service providers to retain certain specified categories of call related data (not the content of communications), for 2 years in the case of mobile and fixed telephony and 1 year in the case of internet telephony. This data is often referred to as "traffic data" or "metadata" and comprises information about communications; including inter alia, data to identify the source, destination (phone numbers and subscriber details), timing of commencement and termination of a call, geographical location (cell ID) and data necessary to identify the users' communication equipment such as an International Mobile Equipment Identity (IMEI) and the International Mobile Subscriber Identity (IMSI).

This metadata is subject to a disclosure request issued to CSPs by senior ranking officers of authorised agencies, defined in the 2011 Act. Such disclosure requests, under the provisions of Section 6 of the 2011 Act, have been used extensively over the years by An Garda Síochána (the Irish Police), in the protection of life and the investigation of serious crime and terrorism. Under Section 7 of the 2011 Act, a telecommunications service provider is obliged to comply with a disclosure request.

2014: ECJ Declares EU Directive Invalid

In 2014 the European Court of Justice (ECJ) declared Directive 2006/24/EC to be invalid, fundamentally because it failed to make express provision for sufficient safeguards for the protection of the fundamental rights of citizens as guaranteed by

the European Charter of Fundamental Rights. The ECJ decision arose from cases questioning the validity of the Directive that had been taken in Ireland by Digital Rights Ireland and also a similar challenge by parties in Austria. Digital Rights Ireland had commenced proceedings and in 2010 (the year prior to the 2011 Act coming into operation) the Irish High Court referred the case to the ECJ.

The ECJ based its decision on the rights to privacy and family life and to protection of personal data that are assured under Articles 7 and 8 of the EU Charter of Fundamental Rights. The ECJ accepted that concerns such as organised crime and terrorism raised issues of public concern that could justify some interference with those rights, but it ruled that the type and degree of interference must be strictly limited and proportionate to the threat involved. Also, any provision allowing such interference must have adequate safeguards against abuse and loss of data. In summary the ECJ ruled that:

- the Directive's requirement that service providers retain all communications data, even of persons not suspected of involvement in serious crime, was disproportionate
- the Directive failed to set objective criteria determining how and when national authorities could access, and use retained data
- the Directive failed to protect rights by means of procedural safeguards such as prior independent review by a court and
- the Directive's failure to stipulate that communications data be retained in the EU undermined the requirement to protect personal data.

2015: Irish Supreme Court Judgement in "J.C." Case

This significant Supreme Court Judgement is referred to because from 2017 onwards, it was the main case cited by prosecution authorities in Ireland in cases where the admissibility of telecommunications data in criminal trials has been challenged. In the JC case, a search warrant which formed a crucial part of the prosecution case was lawful at the time it was issued, but by the time the case reached trial the particular legal provision authorising the issue of the warrant, had been struck down as unconstitutional. The Supreme Court majority decision meant that from the date of the judgement onwards (April 2015), evidence obtained unconstitutionally / illegally, can be considered by the trial Judge and may at his/her discretion be admitted if the prosecution can show the breach was due to inadvertence.

2016: ECJ Adjudicates on National Law Provisions - The “Tele2” Decision

The “*Digital Rights*” *Judgement* (2014) had dealt primarily with the validity of EU law - Directive 2006/24/EC. This meant that there continued to be some ambiguity on the validity of any national laws which had been enacted in member states. This aspect was addressed in a judgement in December 2016, when the ECJ ruled in a case known as “*Tele2*”, that EU law prohibited general and indiscriminate retention of traffic and location data. The ECJ also held that procedural safeguards such as prior review by an independent body were essential.

2016–2017: “The Murray Report”

In January 2016, the Irish Minister for Justice and Equality, commissioned former Chief Justice John L. Murray to undertake a review of the State’s data retention laws with respect to the communications data of journalists. This followed a controversy that arose when journalists were questioned about their sources for certain stories and in some cases there was evidence that access had been obtained to their communications data. Justice Murray completed the report of his review in April 2017 and it was published by the Minister for Justice and Equality, on 3 October 2017. Judge Murray identified a number of frailties with the Communications (Retention of Data) Act 2011, including:

- failure to provide for prior independent authorisation of disclosure requests
- failure to articulate sufficiently clear objective criteria governing the conditions, circumstances and purposes surrounding data retention and disclosure
- failure to provide clear procedures and protocols for the statutory bodies given a right of access to retained data
- failure to provide for the storage of retained data within the European Union
- inadequate security obligations and standards placed on Service Providers

2017 - Proposed Legislation - The Communications (Retention of Data) Bill 2017

At the same time as publishing the “Murray Report”, the Minister for Justice also published the General Scheme of the Communications (Retention of Data) Bill 2017, which is intended to replace the 2011 Act. The draft Heads of Bill provisions are intended to remedy many of the issues which were identified in the ECJ judgments and the Murray Report.

Apart from the significant developments already referred to, the following three criminal cases (one case involved a retrial) of which the author provided evidence in, are worthy of mention. They relate to challenges to the admissibility of phone related evidence and the discretionary consideration applied by the Judges as to the individual circumstances of each case regarding the disclosure requests for data:

- 2017 – DPP (Director of Public Prosecutions) V O’Driscoll (murder) Central Criminal Court, The Criminal Courts of Justice (CCJ), Judge McCarthy ruled in favour of the admissibility of telephony data despite his view that there was a breach of the “rights of the accused in community law”. He elaborated that the Garda Chief Superintendent had acted “*with the utmost good faith and on the basis of the law of the land as it then stood*”... *and that he should receive the evidence by virtue of the discretion extended by JC*”. The outcome of this trial was that the jury failed to agree on a verdict and a retrial was held in 2018.
- 2018 – DPP V O’Driscoll, retrial at CCJ, Judge White ruled that it “*should not be taken that evidence obtained in circumstances of illegality should readily be admitted*”. In his discretionary consideration of the facts, he stated that “*there was a presumption of constitutionality attaching to the 2011 Act and also at the time that the data had been retained in 2012, the 2006 Directive had not yet been declared invalid by the ECJ*”.
- 2018 – DPP V Gary Flynn (murder) Court of Appeal Judgement, the court dismissed the defendant’s appeal from his conviction for murder on the grounds, inter alia, that investigating Gardaí wrongly accessed location of mobile phones during their investigations.

It is anticipated that there will continue to be legal challenges by defence counsels on the admissibility of telecommunications data on the basis that it was obtained on foot of legislation that was invalid. The prosecution will undoubtedly argue that the trial Judge has discretion as to whether or not such evidence can be admitted. In this regard, the prosecution will have to present evidence on issues such as the timing of the request relative to ECJ decisions, the Murray Report, the mindset of the senior police officer at the time of making the disclosure request and the policies, procedures in place by the Gardaí (Police) to adjudicate on matters such as necessity, relevance and proportionality.

It is evident from the foregoing and other court judgements that the judicial process consistently applies an exercise of reasoning, transparency and analytical discipline within a framework of integrity and fairness. A judge must outline reasons for his or her decision and the conclusion reached is based on a process of logical rationale. This code of conduct or ethics represents in general terms the principles of judicial accountability. The judicial process has endured a reputation of confidence from the public over the past century and I believe business leaders can translate many of its facets into a framework for ethical business behaviour.

The General Data Protection Regulation

Technology has transformed our lives in a way nobody could have imagined which has led to a global review of privacy laws. In 2016, the EU adopted the General Data Protection Regulation (GDPR), replacing the 1995 Data Protection Directive which was adopted at a time when the internet was in its early years. The GDPR is now the recognised data protection law across the EU .

The GDPR places direct data processing obligations on businesses and organisations at an EU-wide level. An organisation can only process personal data under certain conditions. For instance, the processing should be fair and transparent, for a specified and legitimate purpose and limited to the data necessary to fulfil this purpose. It must also be based on one of the following legal grounds:

1. The **consent** of the individual concerned
2. A **contractual obligation** between you and the individual
3. To satisfy a **legal obligation**
4. To protect the **vital interests** of the individual
5. To carry out a **task that is in the public interest**
6. For your company's **legitimate interests**, but only after having checked that the fundamental rights and freedoms of the individual whose data you are processing are not seriously impacted. If the person's rights override your interests, then you cannot process the data.

The key steps a business needs to take to ensure compliance with data protection legislation are:

- Identify what personal data is held (this can be achieved by setting out the information listed in Article 30 of the GDPR)
- Conduct a risk assessment of the personal data and data processing activities (Article 24, Recitals 74,75, 76 & 77)
- Implement appropriate technical and organisational measures to ensure data (on digital and paper files) are stored securely. The security measures to be adopted will depend on the type of personal data processed and the risk to customers and employees should security measures be compromised (Article 32)
- Know the legal basis relied upon (consent? contract? legitimate interest? legal obligation?) to justify processing of personal data (Articles 6–8)
- Ensure that only the minimum amount of personal data necessary to conduct business is collected, that the data is accurate and kept no longer than is needed for the purpose for which it was collected (Article 5)
- Be transparent with customers about the reasons for collecting their personal data, the specific uses it will be put to, and how long the data will be retained (e.g. notices on your website or signs at points of sale) (Articles 12, 13 and 14)
- Establish whether or not the personal data which is processed falls under the category of special categories (sensitive) of personal data and, if it does, know what additional precautions are required (Article 9)
- Decide whether the services of a Data Protection Officer (DPO) are necessary or mandated (Article 37)

Even with all the helpful guidance, businesses are still finding it difficult to navigate the complexity of becoming compliant with the GDPR. Fines, data breaches and reporting continue to be a grey area. Businesses are awaiting more detailed guidance and examples from data protection authorities and the courts.

There have been many GDPR myths and misinterpretations including claims that the GDPR prevents people from taking photographs at children's school or social events or signing a visitors' book in a museum. These have all muddied the waters and made it more difficult to understand the data protection requirements.

A practical view is needed to help organisations create the operational policies and processes to become compliant with GDPR that is appropriate for their business and operating model. The approach should be sensible, cost-effective and easily defensible to the regulator. As a first step, businesses should assess their current data protection environment and define a target operating model, integrating the elements of people, process, and technology:

- **People:** Provide privacy awareness and training
- **Process:** Provide guidance for dealing with personal data including the development of policies, a record of processing activities (a detailed listing of all processes containing personal data required to be kept under GDPR) and an analysis of high risk processes and their associated controls (a Data Protection Impact Assessment)
- **Technology:** Ensure practices are in place for updating and deploying technology to securely find, store, amend, and delete personal data in a controlled, logical fashion

Businesses should take a risk based approach, as required in the regulation. The risks to be considered are the risks to the people whose data you process. Once a framework for data protection is created, it's essential that businesses ensure it is fit-for-purpose.

It is vitally important for an organisation to practice what it would do in the event of a data breach and how it will process, for example, a subject access request (SAR) or report a data breach. Practicing the steps in the process before having to do it under time pressures is a sensible way to plan for a breach. Through implementing a data protection framework by way of guidance across people, process, and technology, will assist in mitigating short term risks. In the long term it will nurture a sustainable data protection compliant culture.

In examining the evolution of privacy laws, it is clear that laws stipulate what shall or shall not be done and ethical beliefs about good and bad behaviour lie behind the legislative provisions. Data protection laws are no different in this regard, in that they are based on ethical concepts that underpin the fundamental rights of privacy and data protection. GDPR, as well as earlier generations of data protection laws, incorporates ethical principles, although their status, explicitness and clarity are not consistently mentioned across the various recitals and articles - some might argue that the range of ethical principles upon which the GDPR could have drawn from was wider.

For example, *dignity* is cited once in the GDPR, in Article 88, concerning processing in the context of employment. Recital 4 contains a very general ethical reference, saying: *The processing of personal data should be designed to serve mankind*. The right to the protection of personal data is not an absolute right; it must be considered in relation to its function in society and be balanced against other fundamental rights, in accordance with the principle of proportionality. The GDPR's emphasis on respect for the 'fundamental rights and freedoms' of natural persons is universal, and the concept of *fairness* plays a key role. Fairness is an ethical dimension that is central to legal requirements for data protection under international and EU law, as well as national law.

Another, more general, principle is *respect for the rule of law*, reflecting the ethical and legal roots of the EU and its member states. Respect for the rule of law is reflected in data protection laws by providing that the processing of personal data must rely on a legal basis.

Going beyond compliance with the GDPR and data protection is an emerging trend, as there has been an increased demand for more ethical discourse of data protection. This has led to the formation of ethical codes of practice, ethics advisory processes and groups and an increasing awareness of data ethics (*the responsible and sustainable use of data*).

It is about doing the right thing for people and society, however, doing what one should do with personal data, and refraining from what one should not do, will continue to inform further debate on privacy laws. Part of this debate should include efforts for creating an effective ethical culture in which businesses do the right thing. Especially, with emerging new technologies such as artificial intelligence (AI), machine learning, robotics, and the internet of things (IoT) that are generating important ethical questions relating to privacy and data protection – placing an even greater emphasis on adopting ethics by designTM.

What Is Ethics?

According to Christina Hoff Sommers in "Teaching the Virtues", ethics is about the assessment and evaluation of values, because all of life is value laden. Values are the ideas and beliefs that influence and direct our choices and actions. Whether they are right or wrong, good or bad, values, both consciously and unconsciously, guide how we make decisions and the kind of decisions we make.

To know what is right, an individual must use one's reason and can apply it to for example to Thomas Aquinas (an Italian philosopher and theologian) teachings. This reason is believed to be represented, in its most abstract form, in the concept of a primary principle: *Good is to be sought, evil avoided*. Natural law, developed by Aquinas, uses the natural order of the world as its basis. Humans use their nature to interpret and understand what the natural law is. It is concerned with both exterior and interior acts, also known as action and motive. Simply doing the right thing is not enough; to be truly moral one's motive must be right as well. For example,

helping an elderly person across the road (good exterior act) to impress someone (bad interior act) is wrong. However, good intentions don't always lead to good actions. The motive must accord with the cardinal or theological virtues - cardinal virtues being acquired through reason applied to nature, prudence, justice, temperance and fortitude. The theological virtues are faith, hope and charity. According to Aquinas, to lack any of these virtues is to lack the ability to make a moral choice. For example, consider a person who holds the virtues of justice, prudence, and fortitude, yet lacks temperance. Due to their lack of self-control and yearning for pleasure, despite their good intentions, they will find themselves swaying from the moral path.

In a previous role as Head of Fraud & Security for a leading telecommunications service provider, I was responsible for investigating incidents of wrongdoing, along with ensuring that the company was compliant with several privacy laws. For over 16 years, I investigated numerous incidents of wrongdoing because individuals swayed away from a moral path, mainly for personal gain and in many cases due to greed.

The fraud response strategies, processes and procedures which were in place to identify and address incidents of wrongdoing originated from lessons learned as far back as the Enron scandal. Enron was a company that reached dramatic heights only to face a dizzying fall. The company's collapse affected thousands of employees and shook Wall Street to its core. At Enron's peak, its shares were worth \$90.75; when the firm declared bankruptcy on December 2, 2001, they were trading at \$0.26. To this day, many still question how such a powerful business, at the time, one of the largest companies in the US, collapsed almost overnight. Also difficult to fathom is how its leadership managed to fool regulators for so long with fake holdings and off the books accounting. It is a glaring reminder of the implications of being seduced by charismatic leaders, or more specifically, those who wrongfully took at the expense of their communities and their employees. In the end, those misplaced morals killed the company while it injured all of those who had gone along for the ride. "Just as character matters in people, it matters in organisations," says Justin Schultz, a corporate psychologist in Denver. The question is, could it happen again? the answer is yes.

In addition to the investigation role, I was responsible for ensuring compliance with privacy laws, which requires me to give evidence in serious criminal trials on practices for *the retention of and access to telecommunications data* regime in Ireland. In this role, I gained a deep insight and respect for the judicial process, the rule of law, learned about the application of ethical, moral and logical reasoning; a process that could serve business leaders well in the digital age.

Lessons from Legal Ethics

Legal ethics are principles of conduct that members of the legal profession are expected to follow in their practice of law. Practitioners of law emerged when legal systems became too complex for all those affected by them to fully understand and

apply the law. Many individuals with the required ability mastered the law and offered their skills for a fee. No qualifications existed and these individuals were not subject to legal controls. The dishonest individuals charged exorbitant fees, failed to perform as promised and engaged in delaying tactics in the trials before which they appeared. Action to prevent such abuses was taken by legislation, by judicial and other governmental measures. The right to practice law came to be limited to those who met specified qualifications. Expulsion from practice and criminal penalties were introduced for various types of misconduct. These measures did more than correct abuses, they also gave recognition to the social importance of the functions performed by legal professionals and identified those who were qualified to perform them.

A realisation developed within the profession of the need for standards of conduct which became the core of legal ethics. Those ethics being a moral philosophy and discipline concerned with what is morally good and bad and morally right and wrong.

No profession is without cases where individuals stray from a moral path and no profession is beyond the law, which is why it is important to put in place mechanisms for individuals to report suspect wrongdoing both confidentially and anonymously.

A Constant Balance

Our laws are intended to reflect societal values, for both good and bad and there will always be a balance to be struck.

"The freedom of the just man is worth little to him if he can be preyed upon by the murderer or the thief" (Lord Denning) - The opening words of the Universal Declaration of Human Rights state that recognition of the inherent dignity and of the equal and inalienable rights of all members of the human family is the foundation of freedom, justice and peace in the world. The fundamental importance of protection of human rights enshrined in this statement is in no way diminished or undermined by the fact that in practice there can sometimes be a tension between competing rights, and between individual rights and social duty, and that as a consequence, a balancing of rights may have to be undertaken. The Charter of Fundamental Rights of the European Union, for example, recognises that enjoyment of these rights entails responsibilities and duties with regard to other persons, to community and to future generations.

In the field of telecommunications and electronic communications the individual's right to privacy and data protection is fundamental and has to be respected and protected by governments in a democratic society. At the same time government has a clear duty to ensure the safety and wellbeing of its citizens. A tension can arise between these duties of government and a delicate balance may have to be struck in protecting rights which, while fundamental, are not absolute.

The fact that rights such as privacy and data protection are subject to some limitations is acknowledged in the well known international legal instruments on human rights. For example, Article 8 of the European Convention on Human Rights, which lays down the right to respect for private and family life, goes on to allow for the possibility of interference by a public authority with the exercise of this right in limited, defined circumstances. Such interference is prohibited except where it is in accordance with the law and is necessary in a democratic society in the interests of national security, public safety or the economic well-being of the country, for the prevention of disorder or crime, for the protection of health or morals or for the protection of the rights and freedoms of others.

The Charter also envisages limitations of the rights it enshrines. Article 52 of the Charter specifies that any limitation on the exercise of the rights and freedoms recognised by the Charter must be provided for by law and respect the essence of those rights and freedoms. Subject to the principle of proportionality, limitations may be made only if they are necessary and genuinely meet objectives of general interest recognized by the European Union or the need to protect the rights and freedoms of others.

So the international legal instruments on human rights recognise that it is inherent in the very nature of these rights that their exercise may carry with it responsibilities, that there is a balance between individual freedoms and social duty, that individual rights may have internal limits and that one kind of right or freedom often needs to be balanced against another.

Evolving Rights Society

We live in an evolving rights society - enjoyment of rights such as freedom and security, for example, can often give rise to a tension and reconciling them may require a delicate balance to be struck. In difficult cases there will be no magic formula for deciding where exactly the balance should be struck but principles such as legality, necessity and proportionality, and whether appropriate standards and safeguards exist, are factors that are considered in striking the balance.

Legislation to regulate areas of activity that impinge on fundamental rights will usually involve such a balancing. For example, legislation on *access to and retention of telecommunications data* for the purpose of combating serious crime or protecting national security, will seek to achieve a balance between the right to privacy of the individual and the public interest objective of protecting the security of the individual and the State against the threat of terrorism and criminality.

The balance thus struck in legislation is, of course, subject to review by the courts in the interpretation and application of legislation in individual cases and may have to be revisited if found to be inadequate. For example, in relation to retention of electronic communications data and its potential disclosure for the purpose of combating serious crime, the EC Directive referenced earlier (Data Retention Directive - DRD 2006/24/EC), was declared invalid by the European Court as constituting a

disproportionate interference with the fundamental rights guaranteed by the European Charter of Fundamental Rights (notably the right to privacy and the right to protection of personal data) because it lacked sufficient safeguards protecting those rights.

The implications of the findings of the European Court of Justice in the *Digital Rights Ireland* case and the *Tele 2* case for the Irish legislation which implemented the Directive, are still being adjudicated upon and a Bill to amend that legislation is in the course of preparation.

Balancing of rights can also arise at the stage of implementation and operation of legislation. Measures which lay down standards to be observed and safeguards to be provided can play an important role in this regard. Measures of this kind can be taken by businesses at the earliest possible stage for e.g. privacy, security, safety and ethics by designTM, all of which seek to put in place appropriate technical and organisations measures to protect against unlawful access to data.

Humanising Data

When we use the word data it does not illicit any emotion, as the word data is a cold word. However, behind the data are victims of crime, ordinary citizens, vulnerable people and children. For over 17 years giving evidence in numerous serious criminal trials and witnessing the impact of serious crime on society as a whole, has shaped and influenced my character, the raising of my two sons and helped me to help others to shape the future. It is a privilege to play a small part in promoting safe societies.

While recognising the rights to privacy of individuals laid down in European law, Mr. Justice Clarke in the Graham Dwyer Judgement delivered by the Supreme Court in Ireland on 24th February 2020 stressed that “there were competing human and constitutional rights – including the rights of victims and of vulnerable people - and that the courts had to balance these rights”.

A Landmark Privacy Case – The Graham Dwyer Judgement (High Court – 2018)

In October 2013, Graham Dwyer, a Cork-born architect was charged with the murder of Elaine O’Hara, a 36-year-old childcare assistant who was last seen alive at a public park in Dublin on 22 August 2012. The remains of her body were discovered on Killakee Mountain, south of Dublin, in September 2013. The investigation of her disappearance, and later of her murder was widely reported. Graham Dwyer was subsequently sentenced to life imprisonment, having been convicted in March 2015. He appealed his conviction and that appeal has yet to be heard at the time of writing.

For this reason, I will confine my references, without comment, to judgements and legal arguments which have been aired at various court hearings.

At his criminal trial, evidence was given by representatives of An Garda Síochána and the Communications Service Providers (CSPs) concerning access to and disclosure of mobile phone call records, under the provisions of the Communications (Retention of Data) Act 2011. Lawyers for Mr. Dwyer argued that the mobile phone data was inadmissible as evidence, on the basis that at the time of his trial in 2015, the Directive underlying the 2011 Act had been “struck down” by the European Court of Justice, as referenced earlier. Those arguments were rejected by the trial judge and the phone data was admitted into evidence. Mr. Dwyer’s legal team initiated a High Court action in January 2015 over the use of mobile phone records in his trial, claiming that certain provisions of the 2011 Act breached his rights to privacy under the Constitution, the European Convention on Human Rights and the Charter of Fundamental Rights of the European Union.

In essence, Mr. Dwyer’s High Court case was confined to seeking a “declaration” which would allow him to advance the argument at his appeal hearing, that particular evidence should have been excluded at his criminal trial. A judgement on the 6th December 2018 was the outcome of the High Court case initiated in 2015. The High Court Judgement by Mr. Justice O’Connor found that sections of the Communications (Retention of Data) Act 2011 were incompatible with EU Law.

The judgement made detailed reference to extracts from ECJ judgements in the *Digital Rights* and *Tele2* cases and the Murray Report. A key aspect of the judgement is the fact that “the primacy of EU law is the foundation for this judgement and Ireland and its courts have no option but to apply EU law”.

The practical operation of the Irish criminal justice system means that there is often a significant time lag between a criminal investigation and court hearing. Currently there are cases at trial involving evidence relating to disclosure requests for telecommunications data which were made in the period 2013 to 2017.

The State appealed the High Court decision to the Supreme Court, arguing that the proceedings raised complex and novel questions of constitutional and EU law and would have significant implications for many others who are not parties to the case.

The Supreme Court delivered its judgement on 24th February 2020, to the effect that it was referring a number of questions, concerning the interpretation of European Law, to the European Court of Justice (ECJ). While one of the Judges (Mr. Justice Charleton) dissented in relation to whether the case should be referred back to the ECJ so there is a consistency in the approach taken to the balancing of rights.

The judgement is thorough, balanced and a carefully considered ruling which takes account of the rights of all citizens. It is an excellent case study for further study and analysis.

The Supreme Court will finalise questions to go back to ECJ, and based on subsequent responses, the supreme court, assuming they receive clarity will rule on the Dwyer case – even though Ireland have asked these questions to the ECJ, the answer is binding on all member states.

The main issues raised by Chief Justice Clarke in his judgement were:

1. Retention of Data: a system of universal but limited retention of telephony data is not, in and of itself, incompatible with EU Law – based on the premise that the prosecution of serious crimes, particularly those against women, children and vulnerable persons, would in many cases be impossible without access to data (“cannot access data if it has not been retained”)
2. Access to Data: The Irish access regime does not meet the standard of a “robust access system” as there is no independent review in advance of the need for access. This refers to a lack of judicial review or review by an independent body.
3. Powers of National Courts: In the event that the Irish courts find that the 2011 Act is incompatible with the EU Law, they have powers to decide that any invalidity should only be prospective from the date of the judgement. This is important as it effects all past cases since the legislation was adopted.

Mr. Justice Peter Charleton in his judgement said, “experience puts this following proposition beyond any doubt: without the secure retention of metadata and the potential to access and analyse it for strictly limited purposes related criminal investigation, the most serious crime against life and limb would remain undetected”.

In Mr. Charleton’s judgement he speaks about “*Crime as human rights violations*” and he cites two cases that he was involved in as a state prosecutor, where telecommunications meta data played a crucial role in the investigation, detection and prosecution. These sections of the Charleton judgement are included here as a succinct summation of the serious considerations that apply to balancing fundamental rights.

Crime as Human Rights Violations

Murder, rape and other serious crimes are fundamental violations of human rights, going so far as to remove all human rights by violent death. Article 47 of the Charter of Fundamental Rights of the European Union provides: “Everyone whose rights and freedoms guaranteed by the law of the Union are violated has the right to an effective remedy before a tribunal in compliance with the conditions laid down in this Article.” Experience puts this following proposition beyond any doubt: without the secure retention of metadata and the potential to access and analyse it for strictly limited purposes related criminal investigation, the most serious crime against life and limb would remain undetected. Victims, including the survivors of victims’ families, would be deprived of their human right to access a court proceeding in pursuit of justice. Investigators would be shorn of an indispensable tool for detecting human rights violators. Justice must be an energetic search for the truth upon which alone any fair verdict against an accused person or any vindication of human rights violations can be based. Cutting out the truth in the form of useful and

convincing evidence leads to the distortion of the legal process and its being severed from the good sense of the European peoples. Criminologists agree that the fear of detection is central to the deterrence of crime. Ireland has suffered, as the two examples given illustrate, from both organised crime and from terrorism. As the examples also elucidate, these threats to society are dampened by a detection approach which is moderate, protective of private rights and which is founded on the certainty of the legal order.

Two criminal cases illustrate the usefulness of recovering such tapes and running a limited search in respect of particular mobile phones or other telecommunications for criminal prosecutions.

Murder of Journalist Veronica Guerin, 26th June 1996

In June 1996, Veronica Guerin a distinguished journalist was shot several times and murdered while stopped in broad daylight at traffic lights near Dublin city. She had been tracked by a spotter from Naas and then followed on her journey on the dual carriageway from there to Dublin. The perpetrators were involved with a Dublin gang which imported drugs and firearms, including sub-machine guns. Of the main participants in the importation gang, of which there were seven, one was ex-Army and had no convictions or reason to suspect him, another was running a shipping company in Cork and there was no reason to suspect him, another was unemployed and had no convictions. Of the four remaining there were convictions for other offences, some serious, but no current reason for police to suspect them. The journalist had enquired into the gang and its leader in the tradition of courageous investigation in the public interest.

Some members of the gang gave evidence relating to the murder and were put into witness protection programs abroad because of justified fears of retribution. Getting such cooperation took several months of painstaking work. But as accomplices, in some respect in the overall criminal enterprise, their evidence was to be regarded with extreme caution by a court. One witness from within the gang, who was a money exporter for it and who had no convictions, described being tasked to go to Naas and to look for a particular red car and report back. This car belonged to the victim. Metadata confirmed a call at that time to another member of the criminal gang. Once the car was on its way to Dublin, metadata relating to calls about spotting the car and reporting back confirmed the evidence. These facts are taken from the relevant judgments of the Special Criminal Court and from appellate judgments, as are the facts following. In both cases, this member of the court was then the prosecutor.

The Omagh Bombing, 15th August 1998

On 15 August 1998 in Omagh, Northern Ireland, a bomb was exploded by terrorists killing 29 people, one of whom was a lady pregnant with twins. There was a painstaking investigation which lasted many months. The mobile phone of a person accused of conspiring to perpetrate the bombing was analysed and its metadata was

recovered pursuant to the safeguards under Irish and British legislation. The mobile phone of an uninvolved man was 'borrowed' for purposes which, according to the main suspect, that individual was completely unaware of. This uninvolved man, as with three of those involved in the gang in the prior paragraph, had no convictions and there was no reason to suspect him or keep him under any form of surveillance. On a pretext of the suspect's mobile phone needing repair, it was borrowed for the duration of a weekend. The metadata showed the two phones communicating with each other in a pattern of calls of short duration from Dundalk to Omagh, some 110 km, and returning from Omagh to Dundalk. Whereas because the suspect and the person whose phone was borrowed on a pretext worked together, there might be reason for them to contact each other for innocent purposes, analysis gave no reason for this kind of pattern where the phones utilised masts up and down in a northwest and then southeast pattern at a weekend. The calls were routed through fixed masts as the mobile phones, carried in cars, went on their journey and used different masts in turn, showing a valuable pattern. This was essential to detect and so to deter serious crime. The Special Criminal Court, consisting of three judges of trial from the High Court, the Circuit Court and the District Court, regarded this evidence as central. This is an extract from the judgment, later reversed on appeal on completely unrelated grounds:

The pattern of calls and sell-mast user by both phones on [the day of the Omagh bombing] indicate that each travelled from County Monaghan [in a Northerly direction] to Omagh shortly before the detonation of the car bomb there and also returned [in a southward direction to County Monaghan where the accused lived] thereafter. It is highly probable that the conveyance of the car-bomb to Omagh that day would have involved, not only the bomb carrying vehicle itself but also a scout car to travel ahead of it. Telephone contact between both vehicles in such circumstances is probable. Contact with the person who gave the bomb warnings may also have been made by the accused's or Morgan's phone.

Prior authorisation for inert data storage could not have solved the murders at Omagh and of the journalist. Several suspects were beyond suspicion. As to geographical range, this would involve mere guesses: since two jurisdictions, Ireland and Northern Ireland, and several towns were involved in the Omagh terrorist outrage, and Dublin, Naas, Cork were the random locations that the relevant crime scenes proved to throw up in the other murder case.

Making Ethical Judgements

Making ethical judgements requires setting out the criteria for judging good, bad, right, wrong and other ethical considerations beyond the question of legal compliance. These are moral judgements in areas where there is not necessarily a

consensus in society. These types of judgements can also go beyond the extent of data protection. As this is an environment where widespread consensus on what constitutes good and bad is necessary, it would, therefore be important to ensure that citizens, industry, experts, academia and government can play a role in shaping the future.

In this increasingly complex rights society, organisations require leaders of good moral character.

A New Way to Lead

It would be unreasonable to expect every decision or act of the business leader to be flawless. John Gardner has pointed out particular consequences are never a reliable assessment of leadership. The quality and worth of leadership can be measured only in terms of what a leader intends, values, believes in or stands for – in other words character. In *Character: Americas Search for Leadership*, Gail Sheehy argues, as did Aristotle before her, that character is the most crucial and most elusive element of leadership.

The origin of the word character comes from the Greek word engraving. When applied to human beings, it refers to the lasting marks in our personality, which include our inborn talents as well as the learned and acquired traits imposed upon us by life and experience. These marks define us, set us apart and motivates our behaviour.

The character-based approach to ethics assumes that we acquire virtue through practice, however, it places an emphasises on an individual's character rather than showing them a set of rules to follow. Aristotle and other virtue theorists reasoned that if we can just focus on being good people, the right actions will follow, effortlessly – become a good person and you will do good things.

The theory, virtue theory, reflects the ancient assumption that humans have a fixed nature on essence and that the way we thrive is by abiding by that nature. Aristotle described this as proper functioning, everything has a function and a thing is good to the extent that it fills its function and bad to the extent that it doesn't. This is easy to see when we examine the function of a flower which is to grow and reproduce, if it doesn't it is a bad flower. The same applies to humans, given that we are animals, all the things that would indicate proper functioning for an animal holds true for humans – we need to grow, be healthy and reproduce. We are also a rational animal and social animal, so our function also involves using reason and getting along with our pack.

Natural Law Theory

Virtue theory is somewhat similar to Thomas Aquinas' Natural Law Theory; that God created us with the tools we need to have to know what is good. It is recognised that Aristotle had a strong influence on Thomas Aquinas which is probably why part of his thoughts on virtue theory ended up in natural law theory but for Aristotle, it was about nature. He argued that nature built into us the desire to be virtuous.

So, what does it mean to be virtuous? According to Aristotle, "having virtue means doing the right thing, at the right time, in the right way, in the right amount, toward the right people".

Some people think this is too vague and isn't specific enough however, Aristotle would argue there is no need to be specific because if you are virtuous, you know what to do, all the time. Essentially, you know how to conduct yourself, how to get along with others, you have good judgement, you can read a room, and you know what's right and wrong. Aristotle understood virtue as a set of robust character traits that once developed will lead to predictably good behaviour.

Aristotle thought all virtue works like this – the right action is always a midpoint between the two extremes. Even when it comes to honesty, where honesty is the mid-point between brutal honesty and failing to say things that need to be said. Essentially knowing what you need to put out there and what you keep quiet about. It also means knowing how to deliver hard truths gracefully, how to break bad news gently, or to offer criticism in a way that's constructive rather than soul destroying. Generosity – giving when you have it to those who need it.

Aristotle described virtue as a skill, a way of living, and that's something that can only really be learned through experience. He called it a kind of knowledge that is a practical wisdom. He said your character is developed through habituation – if you do a virtuous thing over and over again, eventually it will become part of your character.

Become Virtuous

According to Aristotle, virtue is just the right amount, the golden mean - the sweet spot between the extreme of excess and extreme of deficiency. For example, the virtue of courage is the mid-point between the extreme of cowardice and reckless. A courageous person will assess a situation, know their own abilities, and they'll take action that is right for that particular situation.

The theory says that if you become virtuous you can attain the peak of humanity. It allows you to achieve a life well lived or eudaimonia (the Greek word for human flourishing). Aristotle believed that a life of eudaimonia is a life of striving, it's a life of pushing yourself to your limits, and finding success. A eudemonistic life will be full of happiness that comes from achieving something really difficult, rather than just having it handed to you.

Choosing to live this type of life means you are never done improving, constantly setting new goals and you will face disappointments and failures coupled with the satisfaction of knowing that you've pushed yourself to be the best person you could be. Aristotle describes this as morality – being the best person you can be, honing in on your strengths while working on your weaknesses and the kind of person who lives like this is the kind of person who will do good things.

An individual becomes virtuous by living an ethical life, following a moral code which respects others, treats others with kindness and compassion, and is not engaging in corrupt, criminal or malicious actions. To become a virtuous leader, find someone who already is and emulate them. According to virtue theory we are built with the ability to recognise them and emulate them. Judges for example who already possess virtue may be seen as moral exemplars.

The Socially Conscious Leader

Leaders play significant roles in the success of a business: effective leaders set the vision, enable a business to enrich shareholders as well as ensuring the business prospers. Socially conscious leaders, on the other hand, go beyond the interests of shareholders and the business. According to Peterson and Patel (2016), socially conscious leadership provides the platform for bridging the gap between the traditional (shareholder goals) and contemporary (shareholder and social goals) business practices.

Socially conscious leadership is similar to moral management that involves profit maximisation in line with legal and ethical considerations. Therefore, socially conscious leaders pursue agendas that include not just issues related to the maximisation of profits for shareholders but consider the needs of society, the environment, and other stakeholders, such as the employees or charities.

The socially conscious leader bears moral responsibilities for the actions of the business he or she leads. Being socially responsible involves responsibility, accountability, and transparency of business operations towards, shareholders, society, and consideration of the environment.

A socially conscious leader that is responsible does not focus on financial performance alone but makes intuitive and genuine socially responsible activities based on personal values and morals (Waldman & Siegel, 2008).

Although many business leaders are morally inclined, there are also ones that are not. Business leaders have a duty to act in the best interests of all stakeholders, therefore, how do moral leaders go about balancing the priorities of the business, society and the environment? One such way, they can be proactive while strategising about how they can tie profitability into Corporate Social Responsibility (CSR) activities.

Bill Gates (co-founder of Microsoft Corporation) and Melinda Gates are exemplars of this, named as the most generous philanthropists in the US. The Bill and Melinda Gates Foundation (BMGF) has focused on global health, education, and

poverty issues, donating more than \$36 billion to charitable causes since 2000. The philanthropists pledged nearly \$2bn to help defeat malaria alone when their foundation partnered with mosquito engineering company Oxitec to develop a male mosquito that would kill off future generations of malaria-transmitting bugs. The Foundation wants to eliminate malaria “with a generation” tackling a disease that has recently been on a fatal rise after decades of decline.

The Foundation also donated more than \$50m to end Ebola and polio in 2014 to help fight the Ebola virus outbreak in West Africa and pledged €38m to a Japanese pharmaceutical company that is working on creating a low-cost polio vaccine.

Linking Business and Society

Corporate Social Responsibility (CSR) addresses concerns about the businesses power and unaccountability that causes harm to people and the environment. CSR, as defined by the World Business Council for Sustainable Development is “the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large”.

CSR is about interlocking the interest of business and the society. The past 10 years in particular has seen the growth of CSR as businesses responding to the negative perceptions from customers who were increasingly concerned at the irresponsibility of business and the lack of transparency around for example, the processing of personal data, its use and monetisation.

CSR for businesses should be about businesses acting responsibly, going beyond the fundamental economic concerns. The CSR framework includes economic (use of goods and services to make profit), legal (operation within the sphere of laws), ethical (operations consistent with societal moral norms), and philanthropic (voluntary promotion of goodwill) responsibilities. Businesses are increasingly under pressure to respond to the needs of stakeholders, thus, the fulfilment of these four components of CSR and the alignment with the realities of the business landscape should be the focus of leaders of the business.

The concept of CSR has continued to gain importance in the business environment. The argument then becomes whether it is immoral for businesses to engage in CSR activities because it enhances the bottom line and vice versa. A question about the social conscience of the business.

Businesses are incorporating CSR to boost their image and change public perceptions in a positive way towards them. For example, Fortune 500 companies like Google, BMW, and Microsoft rate highly for CSR reputation (Strauss, 2016). Google, for instance, has been recognised for its carbon neutrality, green initiatives, and workplace diversity efforts (Miceli, 2015). Similarly, Microsoft has invested resources into sustainable energy goals, environmental and ethical practices, as well as philanthropic activities (Hauser, 2016).

However, for an entire organisation to achieve ethical behaviour, they must make a commitment to it and the model for that commitment has to originate from the top.

The past number of years as seen many global corporations appoint Chief Ethics Officers as part of an overall ethical governance model, supported by a team of product and design ethicists. This is a step in the right direction.

The Rise in the Role of a Chief Ethics Officer

One of the main drivers for this role is emerging technologies. In a 2018 survey of 1400 U.S. executives knowledgeable about artificial intelligence (AI) found that 32% ranked ethical issues as one of the top three risks of AI; interestingly, five years ago there were no such issues. There are several leading corporations that are thinking differently and seriously about the joining of ethics and AI, with leadership beginning to find its way to a position of a chief ethics officer.

Chief Ethics Officers play a vital role in supporting the Board and Directors in establishing the values and behavioural culture of a business. They can promote and lead based on a set of strong beliefs about a particular issue such as climate change or a particular way of doing business for e.g. the processing and use of personal data. The life of a chief ethics officer appears to revolve around providing guidance and awareness of ethics to the entire business including training to shape the corporate culture and responding to allegations of wrongdoing. The development of clear policies around data use and protection are critical.

The motivation to behave ethically is very high in some sectors, for example, in pharmaceutical and law, it is high because licenses can be revoked if you infringe the rules. A number of pioneers in this field have created codes of conduct and rules for ethical behavior, in the absence of laws or regulation. Salesforce, for example, is one of the most visible companies to hire an ethics chief. Paula Goldman, who joined the company in January 2019 and carries the title of Chief Ethical and Humane Use Officer. She has a broad mandate: to develop a strategic framework for the ethical and humane use of technology. The main focus of her work is to ensure that Salesforce's use of AI is not disruptive to immoral ends.

Google is another pioneer in this space choosing to put in place a board that is focused entirely on ethics and AI. The board's principles are published online and codified in a set of beliefs that AI should benefit society, should avoid bias, and should incorporate privacy principles, among other things.

The guiding principle is simple, irrespective of what type of emerging technology it is, put it into an ethical framework.

A New Social Contract for the Digital Age

Social contracts provide a valuable ethical framework that go beyond compliance and promote harmony in society. Social contract theory says that people live together in society with an agreement that creates moral and political rules of behaviour. Some people believe if we live according to a social contract, we can live morally by our own choice.

Social contracts can be explicit, such as laws, or implicit – a country's Constitution is often cited as an explicit example of its social contract, people who choose to live in a specific country agree to be governed by the moral and political obligations outlined in the Constitution's social contract.

Data along with technology can be a tremendous force for social good, particularly in fighting serious crime (terrorism), global pandemics (infectious diseases) and natural disasters (earthquakes, floods, heatwaves). However, with great power comes great responsibility, which is why a new social contract for the digital age needs to set out norms for defining relationships with all of society. The question is, what does that look like? I suggest it might look like this: 1. promote and preserve the rule of law, 2. respect fundamental human rights, 3. empower leaders to act and behave ethically, 4. promote responsible decision making and 5. build an ethical culture. A social contract should also be underpinned by the core values of integrity, honesty and trust and an ethical governance framework. However, as mentioned previously, for an entire organisation to achieve ethical behaviour, they must make a commitment to it and the model for that commitment has to originate from the top.

Final Reflection

On a recent visit to South Africa in November 2019, I had the privilege of meeting Mlilwana Sparks, a former political prisoner of the apartheid era in South Africa. On asking the question to Sparks, "how do we ensure history never repeats itself?" A gentle voice replied, quoting the words of Nelson Rolihlahla Mandela, "education is the most powerful weapon which you can use to change the world". Given the evolution of privacy laws and regulations aimed at enhancing the privacy rights of individuals, business leaders will continue to face ethical challenges in striking a balance between a citizen's right to privacy and providing assistance to law enforcement agencies in combating serious crime and maintaining public safety – accordingly businesses will need to lead in a new way that balances the needs of people and society.

And so, my final question is, how do we educate our leaders of today and the future, to empower them to act ethically and do the right thing for people and society – if we set out to answer this question, only then, will we effect real change. "Virtue lies in our power, and similarly so does vice; because where it is in our power to act, it is also in our power not to act ...", Aristotle.

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