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Business Ethics

There is no such thing as business ethics.

John Maxwell

A business that makes nothing but money is a poor kind of business.

Henry Ford

1. Introduction to Business Ethics

What is a business? Is Christian Aid a business? Is McDonalds? What about a university? This is a difficult and complicated question to answer but let us start from the claim that a *business is an organization that buys and sells goods or services for profit*.

If I buy some books from a shop, they are *goods* and the business makes a profit. If I pay the taxi driver to take me to the airport then that is a *service* and I increase the taxi company's profit.

Maybe then Christian Aid *is not* a business? Arguably there is no "customer" purchasing a good or a service, whereas McDonalds clearly *is* a business. But what about a university? Well that is a much harder and more controversial question, and one that we have posed below for you to consider. For any business, whatever its size, the key feature will be that it sells goods or services for profit.

Ethics arises because relationships exist. That is, if there is a relationship then there is a legitimate question of how *ought* we to behave in that relationship? In a business there are many different relationships and hence we can ask ethical questions regarding each of these relationships. Here are a few examples.

(a) A business has a relationship with its *shareholders* — the people who own a share of the company. However, if the shareholders want to reduce the wages of the workers so they can get a larger dividend, would they be doing something morally wrong? After all, they might arguably be said in some sense to "own" the business and can do what they want with it.

(b) A business has a relationship with its *customers* — the people who are buying the goods and services. For instance, if a business knowingly reduces

the amount of health advice it provides on its labels in order to increase profits, has it done something morally wrong?

(c) A business has a relationship with its *employees*. If a business realises that it can increase productivity by scrapping paternity leave would it be morally wrong to do so? Conversely, if an employee is privy to some questionable practices and becomes a “whistle-blower” then has she done anything morally wrong?

(d) There are also ethical questions that arise regarding the business’s relationship with *the environment*. If a business opens a new factory, giving a much needed boost to the local economy, but can only do so by building on a nature reserve, has it done something morally wrong?

(e) Also there are *others who are affected* by the business’s activity. For example, if a mobile phone company constructs a new phone mast which causes a low hum to be heard by the local community, has the company done something morally wrong?

Of course, businesses have always made ethical decisions. The working conditions in factories before the 1847 Factory Act were certainly morally wrong, even if this was not recognised at the time.

This is in stark contrast to nowadays, when you find “value and ethic” statements in full view on the promotional material of any business. *Not* to be talking in terms of “values and ethics” is very bad business practice. The phrase that is often used in this context is a business’s “*Corporate Social Responsibility*” (CSR). We can take CSR to mean: “[...] a business approach that contributes to sustainable development by delivering economic, social and environmental benefits for all stakeholders”.¹ A great example of a company with a clear CSR is The Body Shop, who in 1988 became the founding member of the Ethical Trading Initiative.²

There is now a plethora of ethical rankings that tell the customer which businesses are best in terms of CSR, and which is the most ethical (e.g. Forbes, ‘The World’s Most Ethical Companies’).³

Although it is now the norm for a business to have “ethics” statements, it is arguably *irrational* for companies *to be* ethical. Why might this be? Consider this basic argument.

1. A business’s aim is to make a profit.
2. A business will make a profit if it can attract customers.

1 ‘FT.com/Lexicon’, *Financial Time*, [http://lexicon.ft.com/Term?term=corporate-social-responsibility--\(CSR\)](http://lexicon.ft.com/Term?term=corporate-social-responsibility--(CSR))

2 To see details of the Ethical Trading Initiative see <http://www.ethicaltrade.org>

3 See K. Strauss, ‘The World’s Most Ethical Companies 2016’, <http://www.forbes.com/sites/karsten-strauss/2016/03/09/the-worlds-most-ethical-companies-2016>

3. In the present context (at least in the West) a business will attract most customers if it *appears* to be ethical.
4. It will make *more* profit if it *appears* ethical rather than actually *being* ethical because it actually costs more to *be* ethical rather than simply *appearing* ethical.

Therefore, given (1)–(4) it seems more reasonable for a business simply to *appear* to be ethical, rather than actually being ethical.

Of course, there are many questions that arise from the above argument. For instance, we might think that the potential costs of being found out (i.e. appearing but *not* being ethical) far outweigh the costs of *actually* being ethical in the first place — hence (4) might be rejected. However, there remains a great attraction only to appear ethical and not go through a long, often expensive process to become ethical. It is of course then an open empirical question whether businesses *are* ethical or whether it is window dressing and simply a *cynical marketing device*.

In this chapter we are going to look at a few areas of business ethics and do so through the lens of the normative theories of Utilitarianism and Kantian deontology.

2. Employers and Employees

In 1992 Mike Ashley started the company Sports Direct; it grew rapidly to become the biggest sports retailer in the UK and one of the biggest in Europe. However, in 2016 the lid was lifted on what seemed to be draconian working practices for its employees and it was revealed that workers were not paid the minimum wage. One employee claimed that, “if we went to the toilet more than once every four hours we were called into the manager’s office and questioned”. “I lasted six days before I quit”.⁴ Employees were often searched when leaving the store after work — sometimes having to strip to their underwear. Employees were docked fifteen minutes’ pay for being one minute late. “Sometimes on my zero-hours contract, I would end up working for ten days in a row, for ten hours a day. On other weeks I would get given only one three-hour shift the whole week. There was no routine”.⁵

Did Sports Direct do something morally wrong? To make this a little more manageable, let us put aside the illegality of their behaviour. Let’s assume that they did *nothing illegal* in their practice.

Given this we might think that they did not do anything morally wrong. After all, the employees were not press-ganged into working for the company. They were not chained to their desks nor denied access to exits. Employees were not prisoners or slaves but were rational human beings who chose to

4 D. Avis, ‘Sports Direct: Former Employees Speak Out’, <http://www.bbc.co.uk/news/uk-36864345>

5 *Ibid.*

work for this company. It is plausible that the employees simply failed to read the “small print” in their contracts. In this case why think that the business did anything wrong?

Remember that for an “act utilitarian” (see Chapter 1) an act is morally right if, and only if, it brings about more happiness than any other act, so maybe then Sports Direct *did not* do anything morally wrong.

In the case of Sports Direct, it might be that the *millions* of people who gained happiness from owning the cheap sports products outweighed the misery and unhappiness of approximately 27,000 employees. In which case it was morally acceptable for Sports Direct to treat its employees in the way that it did.

Moreover, the act utilitarian has no time for “rights” in general and an “employee’s rights” in particular. However, we suspect most people would believe that what Sports Direct did *was morally wrong* and even if it were *legal*, people would judge that the company ought not to have acted in the way that it did.

That said perhaps we do not need to draw this conclusion *even if* we are act utilitarians. This is because Mill said it would be better to be a human dissatisfied than a pig satisfied. He thought that there were “higher” and “lower” pleasures. Only humans can experience higher pleasure, non-human animals cannot.

Mill argues that pleasure should not just be weighed on the qualitative “hedonic” calculus. If we introduce higher and lower pleasures, then we can respect the intuition that what Sports Direct did was morally wrong. Mill thought that higher and lower pleasures were *qualitatively* distinct. If this is true then we might think that the lower pleasures of, say, a million people having a new tennis racket or owning the latest trendy trainers, is outweighed by the higher pleasure of the three quarter of a million employees being treated fairly.

Furthermore, Consequentialist Theories also spell out the “utility” not in terms of happiness or pleasure but in other terms such as *welfare* and *preferences*. A preference or welfare consequentialist might then conclude that what Sports Direct did was morally wrong because its actions did not maximize welfare and/or preferences. Investigating this claim, though, would take us well beyond the scope of this chapter.

Moving away from *Act* Utilitarianism, we might think that the *rule* utilitarian would claim that the actions of Sports Direct *was* morally wrong because the rule “treat your employees fairly” is justifiable on utilitarian grounds. That is, people will *typically* be happier if this rule is followed than if it is not. Hence, a rule-utilitarian might conclude that what Sports Direct did was morally wrong as arguably Sports Direct did not treat its employees fairly.

What is important then is to realize that it is not as clear-cut as saying that a utilitarian *would* believe that a certain business practice is morally right

or wrong. Rather it will depend on the specifics of the situation and how, according to the position, we should maximize pleasure, happiness, wellbeing, preferences etc.

So much for the utilitarians, what about the Kantians? (See Chapter 2.) Well, the Kantian talks in terms of duty and Categorical Imperatives; for the Kantian it is always morally wrong to treat someone as *solely* a means to an end.

On first look, we might think that this is precisely what Sports Direct did in treating its employees as a means to an end (profit). But it cannot be that simple. For if this were true then *all* businesses would be doing something morally wrong because all businesses use their employees to make a profit.

We need to think a bit harder about what Kant is saying. Kant is not saying that businesses cannot use people as a means to an end but that the key is whether the business is treating people *as rational and free*.

Using a taxi is not morally wrong even though we are using the taxi driver for our own end. This is because we pay the taxi driver and they are voluntarily entering into this means-end relationship. The same then could be said for the employees in a business. Sure, it is true that McDonalds, or Ford, or Body Shop are using their employees as a means to an end but this is acceptable because they pay their employees and their employees are entering the contract of work freely.

Perhaps though the Kantian would say that Sports Direct is *different* because it practised a form of *exploitation*. The people working for Sports Direct are very often from the poorest group of society. This means they do not have lots of jobs to pick from so it is not as if they could leave the job and quickly find another. Moreover, we might suppose that in leaving the job they might end up in a situation which is far worse, perhaps not being able to pay their rent, being on the street, having relationships break down.

In this case, we might wonder if the employees really are *freely* choosing to work for Sports Direct. If they are not, then Sports Direct *is* treating its employees as means-to-an-end even though it is paying them. In which case the Kantians would say that what was happening is morally wrong. We'll look at other features of the Kantian position when we consider other issues below.

3. Businesses and Customers

It is clear that businesses can directly affect how a customer thinks about goods or services, the world around them, and themselves. If they could not then they would not spend millions of pounds on advertising each year! But given this then they occupy a position of *trust*. With this trust comes a question

regarding how much information a company should provide to the customer and in what form.

In 2011 a court decision meant that banks had to compensate millions of people after they had been mis-sold Payment Protection Insurance (PPI) which was judged to be “ineffective and inefficient”. It is beyond doubt that banks knew that PPI was a con, yet it was not in their interest to stop selling PPI because it was “a cash cow”. In order to sell PPI banks tapped into the insecurity of customers by promising a “safety net”. PPI promised to repay people’s borrowings if their income fell due to illness or job loss.

We might think that here is a case where a business’s actions towards the customer is morally wrong. But how might we explain this? Well, one obvious way of explaining it is via *trust*. As Doug Taylor, who works for “Which?”, stated: “We’ve always known that people were being mis-sold PPI, but we were still amazed to discover the scale of it. It appears that salespeople are chasing their commissions, their bosses are chasing profits — *where’s the sense of responsibility to the customer?*”⁶

But how far does this “responsibility” reach? It is of course not in a business’s interest — that of making a profit — to give the customer a balanced and “honest” viewpoint. An advert for a computer that says: “this is very expensive; you are probably just buying the label. You do realize that the statistics say you’ll use approximately 5% of its capacity, probably for games, a bit of word processing and surfing the web” will probably not get the company very far in terms of sales. So it seems unfair to compel businesses to be honest and balanced in *this* way.

But on the other hand a company cannot lie. This of course is why the “horsemeat” scandal and other “food fraud” cases have been so controversial.⁷ It may be that people *would* choose to eat horsemeat but the trouble arises when they are deceived into eating it. These were cases where food companies deliberately lied, or deceived the customer for profit.

But what is lying? Well, it *is not* when someone fails to tell the truth but rather it involves *intentional deception*. But why ought companies refrain from lying?

Looking at Act Utilitarianism account it is quite hard to say why it would always be wrong to do so. Presumably, for the act utilitarian, it is not always morally wrong for a business to lie and to exploit the trust of the customer.

6 G. Wearden, ‘How the PPI Scandal Unfolded’, <https://www.theguardian.com/business/2011/may/05/how-ppi-scandal-unfolded>

7 ‘Horsemeat Scandal: Where Did the 29% Horse in your Tesco Burger Come From?’, *the Guardian*, <https://www.theguardian.com/uk-news/2013/oct/22/horsemeat-scandal-guardian-investigation-public-secrecy>

If, by lying, a business produces more happiness than by not lying, then it is morally acceptable for the business to lie.

We might not think that we would get the same result for the rule utilitarian. A plausible rule might be “do not lie in a position of trust where there are reasonable grounds that you’ll be found out”. If this were justifiable through utilitarian grounds, then it would be unacceptable for businesses to lie to the customer. Yet, even on the rule utilitarian account it is true that it is *sometimes* morally acceptable for a business to lie.

This contrasts with the Kantian approach. If you recall, for the Kantian it is *always* morally wrong to lie. It is true in all instances that one ought not to lie. Kant uses the Categorical Imperative to show this. Let us reconsider the PPI case. It would be irrational for the head of a bank to want the maxim “lie to the customer if it means making a profit” to become a universal law. It is irrational because if this is a universal law then there would be *no trust in businesses at all* and therefore there could be no profit and no businesses. It is self-defeating and irrational. So it seems that on Kantian grounds the way that PPI was sold was morally wrong.

4. A Business and the Environment

As we discussed above it is common parlance amongst businesses to talk about *Corporate Social Responsibility*; in other words, a business works with the goal not just of profit but to be in step with the issues of society as a whole. Typically, though not exhaustively, this amounts to the business being ethically responsible towards the *environment*; this might include things such as not testing its cosmetics on animals or reducing the amount of non-recyclable plastic bags that the company uses.

But why should a business have any obligation to the environment? If a business is working within the law but using, say, environmentally unfriendly cement in the construction of its factories, why does this matter? Why should a business use a potentially more expensive product, thus reducing its profits, simply because it is more environmentally friendly?

It is true that the environment is one of the biggest concerns for businesses and is often an area where they are heavily criticized. This, like many of the other ethical issues, is only a relatively new phenomenon. In the past, in the name of profit, businesses could do what they wanted regarding the environment. There was a view that the world is such a massive place that a business polluting a pond, or mining on a green space did not really, in the grand scheme of things, matter. But the increase in globalization, the advancement of science, and the fact we live in connected communities has

made people realize that businesses can, and do, affect the environment; climate change and the hole in the ozone layer are prime examples of this slow realization.

We can bring some of the issues into focus through an example:

In 2000 heavy snow caused the collapse of a dam in Romania. The dam was holding back 100,000 cubic meters of cyanide-contaminated water. The water spilled over some farmland and then into the Someş river. Although no humans were killed the spill caused the death of a huge amount of aquatic life and the accident has been called the biggest environmental disaster in Europe since Chernobyl. The cyanide water was a by-product of the mining of gold by the Aurul mining company.

Did the company do something morally wrong? It might have done something illegal; perhaps it omitted to perform the appropriate load tests, or perhaps it forged safety documentation. But even if it did nothing illegal, did it do something morally wrong?

I suspect in the twenty-first century our answer will be “obviously yes!” But can we give any substance to this thought? What really is wrong? After all, we intentionally kill billions of fish and aquatic life for *food* every year.

What would we say if we are utilitarians? Well we cannot talk about environmental *rights*, for there are *no* rights and again we might find it hard to show why this was morally wrong if we are utilitarians. We might think that the gold produced might cause a lot of happiness, not least because it is used in jewellery, computers, electronics, dentistry, medicine etc. The fish, plants, and other aquatic life do not have a comparably high level of pleasure or happiness compared to humans so all things being equal it might *not* be morally wrong. Of course, as with the other cases this will depend on how we spell out the details of the case but Utilitarianism does not appear to be as clear-cut as we perhaps might have hoped.

For the Kantian, we only have moral obligations towards rational agents and thus there is no such thing as a business’s moral obligation towards the environment, as the environment is not a rational *agent*. Now this does not mean that Kant believes a business can do whatever it wants towards the environment.

If a business treats the environment as a means to an end (profit) then they are *modelling* a certain type of behaviour and this behaviour could then lead to businesses treating humans as a means to an end, which is wrong. So although the exploitation of the environment is not morally wrong for the Kantian, it legitimises and hence increases the possibility of exploitation of *people*, which is.

5. Business and Globalization

The world is getting smaller and it is increasingly easy to contact and work with people across the world. Whereas in the past a UK business might set its sights on reaching a few cities in the UK, businesses now have greater international opportunities. This brings a whole host of new ethical issues but rather than apply our moral theories to these issues, we will leave this to the reader. The aim in this section is to start you thinking about some of the issues.

Nike, Gap, M&S, H&M, Walmart, Nestlé and many more companies have been exposed as using child labour. Although this may not be illegal in the country where the children were used, people think it is very wrong. But is it? Consider this quotation from a Cameroonian father who is also a farmer: “[child labour] is considered as part of the household chores children do to help their parents. I do not consider this child abuse because we are making money that is used to pay their school fees”.⁸

We can understand then that a local rural economy may well be wholly dependent on the use of child labour and therefore a blanket ban on child labour would have a directly negative effect on the livelihoods of a large number of people. But how much then are “western ideals” simply idiosyncratic? Should there be a complete ban or is it the case that:

*A global ban [...] shows disrespect for other cultures by imposing a western mindset as to the economic role of children. A more sensible policy would be to apply some basic rules of humane working conditions in conjunction with a targeted, evolving approach that duly considers the actual outcomes of implemented measures.*⁹

Or consider another issue. As we said, it was not until quite recently that there has been a move to make businesses more environmentally friendly. During the industrial revolution in the UK there was no such requirement. Now consider businesses in “developing” countries. They are often trying to start from scratch with very poor infrastructure and a poor understanding of the environmental impact of their work. In fact, the West imposing their environmental standards on businesses would effectively stop such businesses developing and may lead to their collapse. If a farmer in Kenya has not only got to produce crops, but has to do so in a more expensive “environmentally friendly” way then that farmer might struggle to survive. What right then do

8 F. Wijen, ‘Banning Child Labour Imposes Naive Western Ideals on Complex Problems’, <https://www.theguardian.com/sustainable-business/2015/aug/26/ban-child-labour-developing-countries-imposes-naive-western-ideals-complex-problems>

9 *Ibid.* Here and hereafter the emphasis is ours unless otherwise stated.

businesses in the West have to impose these environmental standards on businesses in other less affluent countries?

There are many other examples of the ethical issues that come with the increase in globalization. In general, these arise when there is a clash of cultures. For example, some cultures operate by using bribes; what then should businesses do within that culture? What about when a Western business is located in a culture which treats women as second class citizens; how should the business treat their female employees and successfully operate? The general question then is how far can we impose — if at all — Western business ethics in non-Western contexts?

SUMMARY

The label “business ethics” is relatively new. The customer is now very sensitive to how “ethical” a business is and thus any signs of moral wrongdoing by a business will lead to a slump in profits. This leads to a general question whether there is any incentive to be — rather than simply appearing to be — ethical.

One question that we have not yet addressed is whether capitalism — the environment needed for businesses to exist — is itself immoral? Marx, and many others, certainly thought that a system that leads us to seek after more money and more material goods will crush and stunt *human flourishing*.

If our function as humans involves devoting time to being healthy, being with friends and family, developing hobbies and skills, educating ourselves etc., then the “for profit” mentality of capitalism could be seen as not allowing us to fulfil this role.

The essence of capitalism is to turn nature into commodities and commodities into capital. The live green earth is transformed into dead gold bricks, with luxury items for the few and toxic slag heaps for the many. The glittering mansion overlooks a vast sprawl of shanty towns, wherein a desperate, demoralized humanity is kept in line with drugs, television, and armed force.¹⁰

Perhaps then the most ethical response to business is to refuse to play the capitalist game of business in the first place and to rethink what “business” might mean and how a “business” should act.

¹⁰ M. Parenti, *Against Empire*.

COMMON STUDENT MISTAKES

- Confusing the legal questions and the moral questions.
- Thinking that Kant says we can *never* use people as means.
- Assuming that equal opportunity means treating everyone the same.
- Assuming that some from a culture can speak on behalf of all that culture.

ISSUES TO CONSIDER

1. Do you think that a university is a business?
2. What do you think the difference is between a business and a company?
3. Find some examples of a business's ethics and/or values statement. What are they saying? What do you think of them?
4. Write an ethics/value statement for your school.
5. What do you think of the argument that it is irrational for a business to be ethical?
6. Find a few examples of adverts. Explain in your own words what they are telling the customer. Is this intentional deception? Is it lying?
7. Imagine that as an employee you are offered a bribe. How would the utilitarian tell us to act? What about the Kantian? Is it always wrong to take bribes in business?
8. Some workplace rules seem true in every culture — e.g. do not use violence. Others, perhaps concerning dress code, do not. How then are we going to decide between those values that should be part of ethical business practice and those that are merely idiosyncratic features of Western business practice?
9. Why should business care about the world they leave for future generations? After all, future generations do not exist.
10. How far do you think capitalism is immoral?
11. If you do think that capitalism is immoral then what alternative is there? Why is the proposed alternative more *morally* acceptable?
12. What do you think about the final quotation from Parenti? What do you think the utilitarian and the Kantian would say about this quotation?

KEY TERMINOLOGY

Goods

Services

Stakeholders

Corporate Social Responsibility

Whistleblowing

Capitalism

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